



STEWARDSHIP CODE REPORT 2023
50 YEARS OF BETTER

CONTENTS

PURPOSE AND GOVERNANCE

- 1 ▶ Purpose, strategy and culture
- 2 ▶ Governance, resources and incentives
- 3 ▶ Conflicts of interest
- 4 ▶ Promoting well-functioning markets
- 5 ▶ Review and assurance

INVESTMENT APPROACH

- 6 ▶ Client and beneficiary needs
- 7 ▶ Stewardship, investment and ESG integration
- 8 ▶ Monitoring managers and service providers

ENGAGEMENT

- 9 ▶ Engagement
- 10 ▶ Collaboration
- 11 ▶ Escalation

EXERCISING RIGHTS AND RESPONSIBILITIES

- 12 ▶ Exercising rights and responsibilities

ABOUT US

Ethics are at the heart of what we do. Out of love for people and planet, the Central Finance Board of the Methodist Church, and Epworth Investment Management Ltd (CFB/Epworth) seeks to carry on the legacy of the church's ethical teaching through investment management.

Like you, we want to address the climate emergency, improve nutritional offerings, promote wellbeing, encourage strong corporate leadership, and tackle all sorts of injustices in the UK and around the world.

The CFB/Epworth is committed to engaging investee companies, acting where we can make a difference, and using our voice in the pursuit of moral good. Most importantly, we are devoted to maintaining an ethical strategy that our clients can be proud of; one that makes your investment work hard to affect real change across industry and society.

£1 BILLION
FUNDS UNDER MANAGEMENT

25+ YEARS
ESG INTEGRATION

200+
CLIENTS SERVED

As at 31 December 2023

CHIEF RESPONSIBILITY OFFICER LETTER

Dear reader,

The CFB and Epworth are entrusted with the responsibility of managing some of the UK's most impactful charities' money. This responsibility extends beyond just financial returns; it also includes considering the impact of investments on people and planet. These considerations are integral for two main reasons. Firstly, poor corporate behaviour can pose significant financial risks to the long-term value of investments. Secondly, many charities and their stakeholders are increasingly concerned about the negative impacts their investments may have on the planet and its inhabitants and are seeking opportunities to invest more positively to promote change.

The CFB and Epworth have a long history of ethical investing. In 1973, the CFB began an engagement with Midland Bank, ultimately leading to what many believe was the first ethics-based resolution at a company AGM when it challenged the bank's lending practices to the apartheid government of South Africa. In true Methodist fashion, the letter accompanying the resolution, penned by then CFB CEO Charles Jacob, began with an apology for being a nuisance to the bank's board. The CFB may well have been a nuisance for Midland Bank, but it was for a just and moral cause.



Jacob's letter continues to advise and influence the Firm's actions today:

"Since the formation of the Central Finance Board, we have sought at all times to apply a sensitive Christian conscience in our investment policies, and in particular have taken care to reflect in our holdings the statements of the Methodist Church on social issues."

Five decades after Jacob's letter, the world remains scarred with historic wounds, as well as enduring the pain of new injustices. People continue to starve, fall victim to conflict, have their rights violated, feel unable to exercise their voice and identity and too often find themselves excluded from the potential for flourishing. Alongside this, our planet jars with pain as we continue to inflict our relentless pursuit of so-called progress on its fragile systems. In short, God's beloved creation is suffering.

As a firm rooted in the Christian faith and guided by the Scripture's moral teaching, the CFB and Epworth cannot ignore the global calls for help. Instead, we find ourselves mustered into action, as God's servants, to promote peace, justice, and care for creation.

I am ashamed of today's state of humanity, and I'm worried about our fragile planet. However, I am proud to say that 50 years on, the CFB and Epworth remain a nuisance on behalf of the poor, the marginalised and the planet.

Here's to the next 50 years of better.

Rev Dr Andrew Harper
Chief Responsibility Officer
a.harper@epworthim.com

PURPOSE, STRATEGY AND CULTURE

The combination of our purpose, investment beliefs, strategy, and culture enables stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

OUR PURPOSE

The CFB, and its wholly owned subsidiary Epworth, provide investment services to churches and UK registered charities, which combine Christian ethics and good investment returns.

The CFB was established by an Act of Parliament in 1960 to provide investment management services to organisations within Methodism. Epworth was founded in 1996 with the purpose of providing the same investment expertise and services to the wider church and charitable world. CFB and Epworth funds are managed by the same team and apply the same purpose, strategy and culture that is outlined below.

OUR CULTURE

We have a culture which centres upon a set of shared values, specifically, a strong belief in applying Christian values to investments. We apply these Christian values within our own organisation, providing care and support to our employees, embracing diversity, and providing opportunities for all employees to develop in their roles.

The CFB is a “not for profit organisation”. Our fund management fees to the Church are set at a level to cover our costs. Our wholly owned subsidiary, Epworth, has a standard regulated, incorporated structure. However, any excess profits generated by Epworth will be paid to the CFB by way of dividends and initially used to lower the fees paid by the Church. If further excess profit accrues, it will be applied towards the mission of the Church. Thus, our corporate culture aligns with those of our charity clients.



We have a strong belief that the Christian values we apply to our investments, and the pressure we apply to companies to act in a responsible way, have helped to improve corporate behaviour across a range of industries and geographies. Our combination of Christian ethics and pursuit of good investment returns has helped our clients to achieve their financial objectives in a manner which is consistent with their beliefs and mission objectives.

The CFB formed one of the earliest ethical investment committees in the UK in 1974 in response to the continued support by companies listed in London for the apartheid Government in South Africa. For the last five decades the CFB, and more recently Epworth, have believed that all strategic and investment decisions must be consistent with

our Christian faith. Our approach recognises the power of the shareholder and seeks to use this to improve corporate behaviours and outcomes.

We are overt about our Christian culture in our engagement with clients, the media, the market, and our colleagues in the Church. The combination of investment and ethical outcomes lies at the heart of what the CFB/Epworth offers and has found traction both within and outside the Christian community.

The CFB and Epworth aim to follow a discipline in which the ethical dimension is an integral part of all investment decisions; to construct investment portfolios, across a variety of asset classes and geographies, which are consistent with the moral stance and teachings of the Christian faith; to encourage strategic thinking on the ethics of investment; and to be a Christian witness in the investment community. We have developed a tool that gathers the resources of our external research partners, synthesises the data with our ethical policies, and produces a score card that forms a key part of company research. The process for this tool is as follows:



We take an active approach to investment management, believing this is the best way to add value for our investors. We help control ethical risk by investing only in companies that meet our strict ethical criteria.

To assist the CFB/Epworth in this aim, the Methodist Church established the Joint Advisory Committee on the Ethics of Investment (JACEI) which reports annually to the Methodist Conference. JACEI has a responsibility to the Church which includes a resolution to Conference that CFB and Epworth funds are managed in support of an ethical stance which is in accordance with the aims of the Methodist Church. JACEI provides ethical oversight of the CFB/Epworth and ensures that the CFB/Epworth invests in line with its policies. JACEI reports are available online: <https://www.methodist.org.uk/about/ethical-investment/>

The Committee recommends ethical policy papers to the CFB/Epworth, which guide ethical investment decisions. Membership of the Committee consists of representatives from the Church's governing body (Methodist Conference) and the CFB/Epworth. It is chaired by a Methodist District Chair (equivalent to a Bishop in the Church of England). Any deviation by the CFB from the Committee's ethical policies will be reported to Methodist Conference. The JACEI report

to Methodist Conference in 2023 confirmed that the assets of the Church had been managed by the CFB in a way consistent with the ethics of the Church. We expect a similar report to the 2024 Methodist Conference.

JACEI has endorsed the CFB/Epworth's strengthening of its theological grounding through the development of ethical pillars. These pillars underpin policies, keep the firm grounded in its theology, and allow the CFB/Epworth to better respond to existing and emerging issues. The ethical pillars are guided by God's call to care for people and planet, are informed by the Wesleyan tradition of equality, fairness, individual responsibility, and societal care, and have been developed in conversation with the Methodist Church's work on A Justice-Seeking Church. The pillars are also linked to the United Nations Sustainable Development Goals (SDGs). CFB/Epworth supports the utilisation of the SDGs, but feel that without a robust theological underpinning, they risk being misused by corporations or organisations attempting to appear ethical. By linking the theological pillars to the SDGs, the CFB/Epworth develops a common industry voice whilst better embedding theology into engagement action.

We have produced position papers and policy statements on a range of subjects including:

- ▲ Climate Change
- ▲ Mining
- ▲ Defence
- ▲ Children's issues
- ▲ Prisons
- ▲ Caste Discrimination
- ▲ Human Rights and Conflict
- ▲ Gambling
- ▲ Food & Beverage Industry
- ▲ Alcohol
- ▲ Farm Animal Welfare
- ▲ Corporate Governance
- ▲ Tax Justice

Copies of these policies are available upon request.

GOVERNANCE, RESOURCES AND INCENTIVES

INTEGRITY THROUGH GOVERNANCE

The activities of the CFB are governed by the Methodist Church Funds Act, 1960 and its responsibilities are defined in the Second Schedule of the Act.

The CFB Council are responsible under its Act of Parliament for the management of the business of the CFB. It achieves this by delegating the day-to-day management functions to the CEO, supported by the Executive Committee, whilst retaining its monitoring and oversight role through its Council meetings. CFB Council and Epworth Board receive updates on the ethical activity of CFB/Epworth on a quarterly basis. CFB Council and Epworth Board will review and approve the updates to the Stewardship Code submission alongside members of the Executive Committee.

The Audit Risk and Governance Committee, advised by the Executive, is responsible for identifying the major risks faced by the CFB and for determining the appropriate course of action to manage and mitigate those risks. This includes investment risks relating to the investment funds managed by the CFB and Epworth.

Our efforts in responsible investment are led by our Chief Responsibility Officer, Rev Dr Andrew Harper, who works alongside a team of dedicated investment professionals. The team actively monitor ethical issues as part of their in-depth research into companies. The team draw upon CFB and Epworth's long history of ethical investing, to work closely with companies on managing their businesses in a responsible and sustainable manner.

We are also able to draw on the considerable expertise provided by JACEI, to guide our work on the full range of ethical issues. Through its regular meetings, it scrutinises our approach to ethics as well as our regular corporate governance activity. In addition to guiding the CFB/Epworth on its development and implementation of its range of ethical policies, the Committee also reviews voting records, ethically excluded stock lists, internal ethics meeting minutes, company engagement, and our collaborative work. JACEI has terms of reference that ensure that the Committee is refreshed frequently, with a maximum term of 6 years for members.

The ethical oversight that JACEI provides is an invaluable resource when pursuing moral returns. The ethical body provides a space for the CFB and Epworth to draw on cross sector expertise. In reporting year 2023 JACEI membership represented expertise from: the charity finance sector, telecoms sector, health and safety, banking sector, climate action, theological backgrounds, the civil service, mental health, government and politics, NGOs, social care, accounting, legal services, armaments, and conflict zones. We are proud to maintain strategic expertise from diverse genders, ethnicities, geographies, and socioeconomic backgrounds.

OUR CORPORATE CULTURE

Our most valuable resource is our people. We have a culture of recruiting individuals who understand our unique approach to investing.

In recognition of the “not for profit” nature of the organisation, the rewards system of the CFB and Epworth reflect reasonable pay structures, strong training support, good pension arrangements and a desire to manage work/life balance. There is no bonus culture within the organisation. Further, all investment team job descriptions require participation in the ethical work that we undertake.

Our KPIs at both group and individual level include investment and ESG objectives. For example, we report to the ethics committee (JACEI) on the carbon footprint of the funds in comparison with its benchmark, with an expectation that it will be falling in both absolute and relative terms. Engagement and voting activity are two other examples of KPIs linked to ethical performance.

As an organisation, we also believe in setting a good example to the companies in which we invest. Epworth was the first fund manager to secure the Fair Tax Mark accreditation, which recognises organisations that demonstrate they are paying the right amount of corporation tax in the right place, at the right time. We are also proud to be an Accredited Living Wage employer, which recognises that our staff and contractors deserve a wage which meets everyday needs.

FAITH LED, DATA DRIVEN

To support our approach to Christian-led responsible investment, we employ industry standard research and data providers. Current providers include Clarity AI, Bloomberg, and CDP.

These providers play a critical role in informing our ethical positions and policies, as well as helping us identify breaches in product involvement and the most pressing areas for engagement.

CONFLICTS OF INTEREST

How we manage conflicts of interest to put the best interests of clients and beneficiaries first

OUR APPROACH

Our policy regarding potential conflicts of interest and Treating Customers Fairly (TCF) in the conduct of investment business forms a key part of our overall compliance regime. The CFB and Epworth nurtures a culture of openness and honesty, where the customer is put first. We aim to comply with not just the letter of the rules, but the spirit as well, and so avoid conflicts of interest.

Epworth is regulated by the Financial Conduct Authority ("FCA"). The regulatory Compliance Manual retains a full conflicts of interest policy and conflicts register. The register is reviewed at least annually.

The policy details the procedures and controls for identifying, managing, preventing, recording and (where necessary) disclosing conflicts. It applies the FCA Principles that are particularly relevant to conflict of interests, namely:

- ▲ A firm must conduct its business with integrity
- ▲ A firm must pay due regard to the interests of its customers and treat them fairly
- ▲ A firm must manage conflict of interests, both between itself and its customers and between a customer and another client

We maintain a record of any circumstances in which a conflict of interest may arise or has arisen in a conflict of interests register. This register provides a description of potential conflicts, the mitigation controls in place, and references the policies that we have in place relevant to the potential conflict. After prayer, all CFB and Epworth Governance meetings begin with declarations of interest.

All members of staff are required to read and adhere to Epworth's detailed conflicts of interest policy. Epworth has a policy of applying the same standards for identification, prevention or managing of conflicts across all its business lines, irrespective of whether or not the particular business line is a regulated activity.

The CFB is an unregulated body and is not required to maintain a conflicts policy or register in the same way as Epworth, however, in accordance with best practice these conflicts of interests policies and procedures are mirrored across the CFB's activities.

SENIOR MANAGEMENT OVERVIEW

Epworth's senior management team is responsible for ensuring systems and controls are robust and sufficient to determine that Epworth is taking all appropriate steps to identify and prevent or manage any conflicts of interest arise. In practice, this requires Epworth's Senior Management to:

- ▲ be involved in the identification and management of areas where conflicts of interest may arise,
- ▲ regularly, and at least annually, review Epworth's risks of conflicts of interest arising and the mitigating arrangements in place. This will involve an inclusive review of the entire business activities of the Firm and, where appropriate, will include the relevant activities of any group companies,

- ▲ assess and review, on an ongoing basis, situations that could potentially give rise to conflicts of interest.

There have been no incidences where the interests of clients diverge or where a client relationship raises a potential conflict; clients of the CFB and Epworth have a full understanding of how their investments will be managed in accordance with our declared ethical and responsible investment policies.

CASE STUDY ► REPRESENTING ALL OUR CLIENTS' VOICES

The CFB was established by an Act of Parliament in 1960. In 1972 it set up its own fund management department, which enabled the CFB to provide professional investment management for organisations within Methodism. Epworth Investment Management (Epworth) is a wholly owned subsidiary of the CFB. Epworth manages investments on behalf of churches and charities, not necessarily within the Methodist tradition. A conflict could conceivably arise when the ethical requirements of Epworth clients and the Methodist clients differ. The Methodist Church has a set of principles and beliefs that we reflect through ethical pillars and policies. These principles

equally apply to Epworth. However, ethical priorities can differ for CFB and Epworth clients. To mitigate this conflict, we maintain the Epworth Responsible Investment Management Group (ERIM), where the client relationship manager represents the non-Methodist client views and ensures that there is a fair voice across the client base. We also affectively mitigate this risk through the priority matrix exercise which surveys both Methodist and non-Methodist clients on their ethical priorities.

The results of the survey play a significant role in shaping the engagement priorities and ethics policies of the firm.

PROMOTING WELL-FUNCTIONING MARKETS

How we identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

OUR APPROACH

We are committed to investing in a manner which promotes well-functioning markets.

We maintain a strong financial position aimed at providing suitable levels of capital and liquidity margins of safety during periods of economic or asset market downturns.

The CFB and Epworth have a comprehensive set of policies aimed at ensuring that we maintain strong levels of market discipline, are transparent about the way that we manage our client's money, and curb excessive risk-taking.

The CFB/Epworth take market risks seriously and monitor these carefully. In addition, we are part of many industry groups to help improve market outcomes, and collaborate with others where we can achieve the best outcomes, we are able to for all clients.

In accordance with having good standards of corporate governance, the CFB and Epworth have effective processes in place to identify, manage, monitor, and report on risks that the business may be exposed to. This includes having a risk management policy and maintaining a risk register. Market-wide and systemic risks that are identified in the risk register include significant weakness in asset markets, counterparty risk, and cyber security.

When it comes to market-wide and systemic risks relating to the asset classes and securities that we invest in, the investment team undertakes work on

a few such risks, and considers their relevance to the companies that the funds invest in. We utilise a variety of methods to achieve this. All our Funds are monitored daily, and, in addition, we have a monthly meeting for each Fund to review performance and risk metrics including tracking error, volatility, liquidity and other asset class specific risks.

The management of our client's assets involves analysing potential credit risks associated with each investment. This is assessed from both a top-down macroeconomic perspective in the asset allocation process, to an individual company level when undertaking bottom-up equity research. As interest rates have increased significantly over the last couple of years, this thorough process has given us confidence in the financials of our investments and exposure to any potential systemic market risks.

CLIENT PORTFOLIO REVIEW

Most of our clients have investment targets based around real levels of return and/or income, some with volatility constraints. Our client portfolios are reviewed daily and rebalanced where necessary to ensure they are in alignment with targets. We systematically review volatility and performance against objectives.

The climate emergency has been at the centre of our attention for several years. Our work on the climate emergency continues, recognising that there is a lot more that needs to be done in the short window of opportunity that remains. An increasing area of focus for analysis has been on companies that are positively contributing, or will contribute to the low-carbon transition, and are less likely to be at risk of being stranded in a low-carbon world.

Meanwhile, companies are increasingly vocal about their sustainability credentials and objectives, and green-washing is a significant market-wide risk. We welcome the new anti-greenwashing regulation coming from the FCA as well as the UK Sustainability Disclosure Requirements. We continue

to scrutinise investee companies, expecting them to set meaningful carbon reduction targets, and seek validation from external bodies such as Science Based Targets Initiative. Where companies fall short of expectations, we aim to meaningfully engage or collaborate to ensure they meet these standards.

We have ethical exclusions in all portfolios, and we monitor those to ensure we understand any specific risks they bring. Recognising that good stewardship goes beyond what we don't invest in, we have worked closely with our trustee, HSBC, to implement an inclusion list of eligible companies. This approach gives confidence that each company appearing on the inclusion list has gone through heightened scrutiny and passed our tolerance test for ethical activity deemed incompatible with the Christian faith. We also consider our record on voting and speaking up on governance matters to be part of addressing market risks, and here we collaborate with many other stakeholders to ensure we are contributing to a strong shareholder voice.



CASE STUDY ► NEW CONFLICT POLICY GUIDES FUND MANAGERS

During the year under review, JACEI approved a new conflict policy for the CFB/Epworth. This new policy supersedes the Israel/Palestine policy, allowing for the rigour of that policy to be applied to multiple areas of conflict, including Israel/Palestine.

Given the continuing rise in armed conflict across the world, the CFB and JACEI felt that a broader policy was needed. The new policy aims to encapsulate the different forms of conflict, including occupied territories, that occur across all geographies, as well as being succinct enough

to provide CFB/Epworth fund managers guidance to speak with investee companies. This policy has worked to guide the CFB/Epworth in its continued monitoring of the Russia Ukraine conflict, Western Sahara, Myanmar, Hong Kong, and Taiwan.

As a direct result of this policy, the CFB/Epworth engaged with Nestle to discuss its continued operations in Russia, with a view to ensure the company is acting in the best interest of its employees in the region and taking the necessary steps to safeguard their human rights.

CASE STUDY ► SECURED TO PROTECT AGAINST CYBER RISK

Cyber risk is a wide-ranging term which incorporates the risk of financial loss, disruption, or damage to the reputation of an organisation from some sort of failure of its information technology systems. It includes malicious attacks designed to steal, disable, destroy, or hold to ransom data from its rightful owners.

Working with a third-party IT support provider with 20 years' experience, it is the policy of the CFB and Epworth that the information and systems it manages shall be appropriately secured to protect against the consequences of breaches of confidentiality, failures of integrity (including hacking) or interruptions to the availability of that information and systems.

CFB and Epworth systems and data are accessed via a dedicated Citrix cloud platform with data being backed up daily. Our IT infrastructure enables us to facilitate a hybrid working environment with no loss of BAU and mitigating the additional risk of working from home. Our defences against Cyber-attack remain strong, and the CFB/Epworth achieved the Cyber Essentials accreditation in 2023. Staff undergo annual cybercrime training and receive regular reminders for vigilance and advice on who to contact if unsure of the validity of incoming emails. Overall, we believe we take market risks seriously and monitor these carefully. In addition, we are part of many industry groups to help improve market outcomes, and collaborate with others where we can achieve the best outcomes we are able to for all our clients.

FUND CARBON INTENSITY VS BENCHMARKS

EPWORTH GLOBAL EQUITY FUND



vs FTSE All World (£) Index

EPWORTH CLIMATE STEWARDSHIP FUND



vs FTSE All Share Index

EPWORTH UK EQUITY FUND



vs FTSE All Share Index

As at 31 December 2023

REVIEW AND ASSURANCE

How we review our policies, assure our processes, and assess the effectiveness of our activities.

The CFB and Epworth have policies that apply specifically to different teams and levels of responsibility within the organisation, as well as blanket policies that apply to all individuals and practices.

Importantly, policies guide which instruments can and cannot be invested in. Investment policies may cover items such as ethics, jurisdiction, and risk. Compliance with policies is monitored within teams, at the executive level and by the CFB Council and Epworth Board.

EXTERNAL ADVISORY COMMITTEE

The Joint Advisory Committee on the Ethics of Investment (JACEI) provides independent external oversight of all CFB and Epworth stewardship policies, processes, and procedures, consistent with current best practice.

The JACEI Annual Report serves as a document of record and accountability of all the CFB/Epworth's stewardship interventions, which is published on the CFB/Epworth websites. This includes engagements with companies with both successful and unsuccessful outcomes.

The CFB/Epworth ethical policies, which govern its investments, are all recommended to the CFB/Epworth by JACEI. JACEI regularly updates these to ensure they remain relevant. New policies arise in relation to emerging ethical issues which are discussed within the committee. JACEI also has the option to write more sector specific policies.

JACEI meets at least four times a year. It scrutinises the investment portfolios from an ethical perspective and assesses the regular engagements on corporate governance, including voting activity, conducted by the CFB and Epworth. JACEI reviews the minutes of internal ethics meeting and responsible investment reports to clients which it can follow up on within its meetings. Given the strong focus on stewardship within and across the CFB/Epworth, we believe JACEI provides the appropriate and relevant external oversight commensurate with our being accountable to the Methodist Church and our clients.

EPWORTH RESPONSIBLE INVESTMENT MANAGEMENT GROUP (ERIM)

Further to JACEI, Epworth has formed the Epworth Responsible Investment Management Group (ERIM). ERIM meets at least eight times a year to ensure the intended application of policies is achieved across asset classes, that the asset allocation process is well-informed of ethical issues, and to research emerging ethical themes not normally covered by JACEI. In addition, ERIM helps centre the voice of minority clients to better ensure investments meet our consumer duty to all clients.

Responsible investment reports are sent to clients within the quarterly reporting statements that they usually receive. This allows opportunities for clients to scrutinise our ethical performance compared with our aims and objectives as set out in the Stewardship Code.



CASE STUDY ► GENERAL ELECTRIC'S MILITARY CONTRACTS BEYOND TOLERANCES

The Joint Advisory Committee on the Ethics of Investment regularly reviews the firm's tolerance for exposure to ethical issues deemed incompatible with church doctrine. The result of this work forms the firm's Levels of Tolerance policy <https://epworthim.com/levels-of-tolerance/>.

The American multinational conglomerate General Electric had been a holding of the Epworth Global Equity fund. During a regular assessment of holdings flagged with exposure to issue outlined in the Levels of Tolerance, the Epworth Responsible

Investment Management Group (ERIM) assessed GE utilising data from Clarity AI and Bloomberg confirming that <5% of the company's revenue derived from military contracts, namely supplying the engines for aircraft including bombers. This moved GE beyond the scope of tolerance for exposure to revenue derived from military weaponry.

As a result, ERIM decided to add the company to our exclusions list and the shares of the company were sold.

CLIENT AND BENEFICIARY NEEDS

How we take account of client and beneficiary needs and communicate the activities and outcomes of our stewardship and investment to them.

OUR APPROACH

The CFB and Epworth's customer base is largely made of charities and charity pension funds. In addition to our charity clients, Epworth maintains a small retail permissions aimed at the individual Christian investor, and seeks to service clients' individual investment needs with the same approach to ethics outlined in this report.

The CFB/Epworth provide two main services to our customers: cash management and long-term investments. The cash management solution is very short-term in its investment horizon. With the long-term investments, some customers invest in a multi-asset fund which is designed for a time horizon of at least five years. We also have retail clients for whom we have discretion to meet their financial needs and attitude to risk. In addition, some clients are classed as 'professional' whereby the client determines their asset allocation and we manage assets accordingly.

During the advice process, clients' views are sought regarding investment objectives, risk tolerances and ESG considerations. These are then factored into the advice that we produce and the portfolios that are subsequently managed for the clients. These portfolios are managed within a tight tolerance to ensure that they do not deviate from the targeted positions. All investments are screened for ESG criteria before being undertaken, and regular ESG reviews of the funds we manage and third-party funds we own are undertaken. All investment positions are reported to an ethical advisory committee.

TRANSPARENCY AT THE HEART

We report quarterly to our customers invested in long-term investments. These reports include a digest of our ESG activities, noting engagements and any exclusions made in the quarter. We also produce a quarterly voting report, allowing customers to interrogate how we have voted in company meetings on their behalf. These reports also include a breakdown of their investments, income, costs, and performance, both absolute and compared to benchmarks. These allow customers to evaluate and report on the stewardship and investment activities we have undertaken on their behalf. We also aim to meet annually with each of our clients - these meetings cover both our investment and stewardship activities and provide an opportunity to explore their views and needs in greater detail.

THIRD-PARTY FUNDS

Our unique approach to responsible investment gives clients assurance that their investments are managed in line with their ethical standards, and that Epworth can be held accountable to the principles we outline in our pillars.

We also recognise there are times when our clients could benefit from specialist expertise that goes beyond our inhouse offering. This may be, for example, geographical specialisations; sector specialisations; absolute return strategies; venture capital and other early-stage enterprises; and private equity.

Pooled funds represent the most effective way to access this external expertise. Pooled investment funds, or collective investment schemes, are assets of multiple beneficial owners aggregated into single investment vehicles.

For our portfolio clients, there is a quarterly assessment to ensure that their investment returns are similar to those that would be expected given market moves and their risk tolerances. There is a further external assessment of the performance and investment style of each investment fund managed internally. The quarterly reporting to clients includes an update on the ethical work of the CFB and Epworth, highlighting areas of engagement.

The CFB/Epworth regularly publishes a client newsletter. Each edition focuses on an ethical theme and its investment implications.

We also hold annual client conferences in representative geographies across the UK to ensure all clients have an opportunity to attend. For those with limited availability, mobility, or additional needs, we broadcast our client meeting online. The principles of the Stewardship Code are presented at the conferences and give free space to clients to ask us questions on the integration of ethics and investment.

Such funds provide access to specific asset classes, thematic investments or strategies that could not otherwise be accessed cost effectively or in the appropriate size without a heightened risk of liquidity becoming unbalanced.

Examples of pooled funds include open-ended structures, closed ended structures and partnerships that can be regulated or unregulated. Epworth's own funds are open ended unit trusts, that are structured as Charity Authorised Investment Funds.

IMPROVED CLIENT REPORTING, ASSESS AND DIVERSIFICATION

Historically our portfolio client investments have been held in the respective client's own name with Epworth having third party authority to manage the portfolio. We have now completed an enhancement to the service provided to these clients by transferring their investments into the name of a custodian nominee, to be held on a platform.

This has enabled us to make several improvements including the provision of online access for clients and more efficient and detailed reporting. We utilise a wider universe of potential asset classes and investments in the construction of our client portfolios, enabling us to provide a more diversified approach and better meet our clients' investment goals and objectives.

The platforming of Epworth's portfolio clients continues to increase the range of potential asset classes using pooled funds. These include Alternative assets, Infrastructure, Property, Private

Equity, and Venture Capital. Exchange Traded Funds are another vehicle commonly used in Epworth's Funds.

When Epworth invests through pooled investment funds there may be indirect exposure to business activities and companies that would otherwise be excluded on ethical grounds. This is comparable with an investment in a large, diversified company, which may not merit exclusion on ethical grounds but which, nonetheless, may have some exposure to activities which would result in an exclusion if they were the sole activity of the company.

OUR APPROACH

If Epworth utilises pooled funds, the following preferences will be considered:



There are certain cases where pooled funds are inappropriate for our ethical investment mandate. Where a pooled fund has been identified for potential research, the first step taken by the investment team is to screen the fund to flag any inconsistencies with Epworth's ethical tolerance levels. If significant tolerance breaches are identified that run counter to our stewardship responsibilities, no further work will be conducted on the pooled fund in question, and no investment will be made.

Where a pooled fund passes the initial tolerance screen, a more thorough research process will be undertaken, assessing the fund's investment characteristics against our internal key selection criteria for third party funds, and the ethical characteristics and applications against our pooled

funds policy. The emphasis of this analysis may vary depending on the asset class (or classes) the pooled fund(s) in question provide exposure to, but in all cases detailed due diligence will be conducted, written up and presented to the asset allocation team.

The assessment will include seeking at least one meeting with the manager of the pooled fund and assessing the responsiveness of said manager to our ethical requirements and engagement requests. This is to assess the ease with which any potential investment could be monitored and regularly reviewed. The liquidity and tradability of the fund is also assessed as part of the due diligence, both for investment reasons and to ensure action can be taken swiftly if a stewardship issue arises after an investment has been made.



CASE STUDY ► THE GOLD, THE BAD AND THE UGLY

Epworth has long grappled with the ethical dilemmas associated with the precious metals industry. The extraction of these metals entails substantial environmental ramifications, encompassing significant carbon emissions during the mining and refining processes, along with the local ecological degradation resulting from extensive land clearing in pursuit of minute metal quantities. Beyond environmental concerns, the human toll is equally disconcerting, as numerous mines globally resort to exploitative practices such as child or forced labour under perilous conditions. Furthermore, the extraction market targeting precious metals from discarded circuit boards and other waste materials is fraught with similar ethical challenges.

For these reasons, Epworth does not invest in the shares of mining companies focused on precious metals and has been reluctant to invest in other forms of exposure to these commodities to date. However, there is no doubt that precious metals, particularly gold, can provide compelling investment properties as part of a diversified portfolio. Although gold pays no dividend, its track record shows it offers little correlation to other major assets, particularly in times of financial or geopolitical shocks, making it an attractive diversifier. Following an extensive research exercise, Epworth recently approved for investment a product providing direct exposure to gold reserves held at the UK's Royal Mint (RM).

RM is one of the oldest companies in the world, manufacturing UK coins as well as currency for

over 30 other nation states. It supports a supply chain of over 800 companies and is a key member of both the World Gold Council and the London Bullion Market Association. The waste offcuts of gold taken from its coin manufacturing processes are recycled into gold bars, meaning they have just 10% of the carbon footprint of bars manufactured from virgin mined materials.

The key benefit to Epworth of partnering with RM through this investment is to leverage RM's status and reputation in the market, to lead the industry on a journey of sustainable initiatives for the precious metals supply chain. It recently became the first sovereign mint to achieve Science Based Target initiative (SBTi) recognition for net zero targets, aided by recent investment that now allows it to renewably self-generate around 70% of its power needs at its manufacturing facility in South Wales.

Epworth's Multi Asset Fund manager Matthew Jones recently visited the RM's manufacturing facility to see the recycled gold process first hand, as well as meet with RM's leadership on its approach to supply chain audit and engagement. RM has conducted an extensive engagement process this year to push for alignment with its new sustainable sourcing policy, and has successfully got more than 75% of its suppliers signed up so far. Epworth will seek to maintain a dialogue with the RM over the coming years to leverage its influence in the broader precious metals industry, and push for positive environmental and social change.

EARTH & ECOSYSTEM



LABOUR



EQUALITY



CONFLICT



SOCIETY



HEALTH & WELLBEING



FAIRNESS, RESPONSIBILITY & TRANSPARENCY



CASE STUDY ► EPWORTH ADDS GLOBAL CORPORATE BOND EXPOSURE

All assets that Epworth selects for investment on behalf of its clients undergo stringent due diligence research, scrutinising both their financial quality, and the ethical merits and challenges of each case. For an asset to be approved for investment, it must demonstrate leadership in both Epworth aims to engage with managers of companies and assets whenever feasible, both during the due diligence process and as an integral part of ongoing monitoring, in order to actively challenge and assess their performance. Epworth's experienced investment team conducts its own research into each potential investment, presenting ideas to Epworth's internal Asset Allocation Committee for scrutiny and ultimate approval for investment.

By way of example, Epworth has invested in the UK corporate bond market on behalf of its clients for many years, generating attractive investment returns from high quality businesses in a manner consistent with its authentic responsible investment approach. However, until recently Epworth had not identified a satisfactory strategy that provided exposure to the global corporate bond market in a way that aligns with Epworth's strong ethical position.

While including global corporate bond market coverage has always been a goal within Epworth's diversified asset strategy, the organisation remains steadfast in its commitment to prioritise both financial performance and evident social responsibility when considering such investments. The global corporate bond market can be challenging to fully access in a cost-effective way, requiring specialised knowledge and resource covering a wide variety of markets & local investment standards across the globe to responsibly navigate.

Epworth's assessment concluded that a diversified portfolio managed by an experienced team was

needed to carefully manage the risks of investing in global corporate debt, without eroding potential investment returns. The portfolio required a meticulous approach to assess the moral standing of each issuer, ensuring that the businesses being lent to were not only well-governed leaders in environmental and social performance, but also actively engaging with issuers to ensure they operate for the benefit of all stakeholders.

In our contemporary world, which is in urgent need of transitioning to a cleaner and more efficient energy system while ensuring the well-being of society's most vulnerable, the debt issued by these businesses ideally should make a positive contribution towards supporting such objectives. The market for labelled debt issuance has experienced rapid growth in recent years. This, coupled with recent market dynamics leading to bonds trading at more attractive levels for investors, has created opportunities for more compelling and responsible strategies in the global corporate bonds sector.

As a result, in November Epworth identified and participated as a launch partner in a new fund covering global corporate debt that passed all of the required due diligence hurdles. This strategy is the Rathbones Greenbank Global Sustainable Bond Fund, with Rathbones keen to have Epworth's involvement in the strategy from launch and offering a significantly discounted management fee. This is evidence of Epworth's flexibility to partner with leaders in the investment world, including potential competitors, to provide optimal investment solutions for charities.

Epworth will regularly review the delivery of this fund, including its promised stewardship coverage, to ensure that it performs in line with expectations. This will include regular meetings with the team at Rathbones.

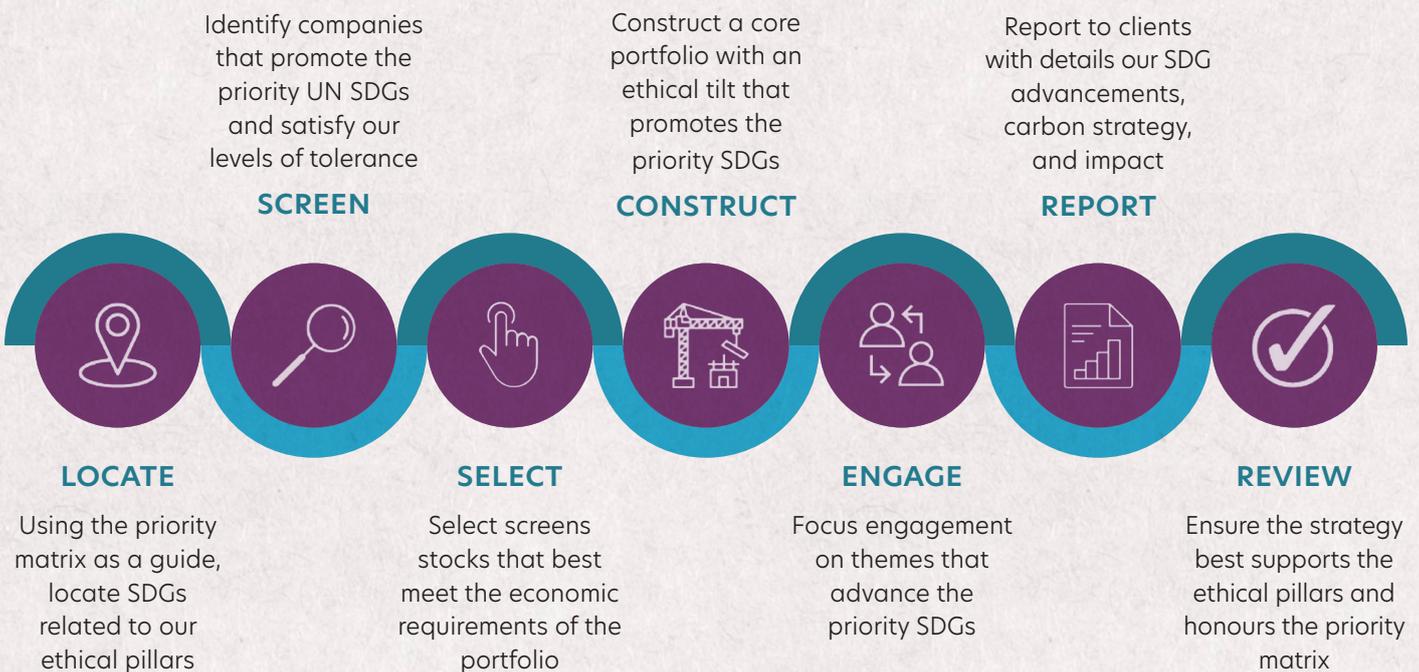
STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

How we systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil our responsibilities.

OUR APPROACH

At the heart of managing our clients' money is our core principle of combining Christian ethics with good investment returns. This interweaving approach is implemented from top to bottom, across the whole organisation, and across all asset classes and geographies. We have a wholly integrated approach to integrating ethics, with all members of the investment team integrating ethical matters into their research and portfolio management responsibilities.

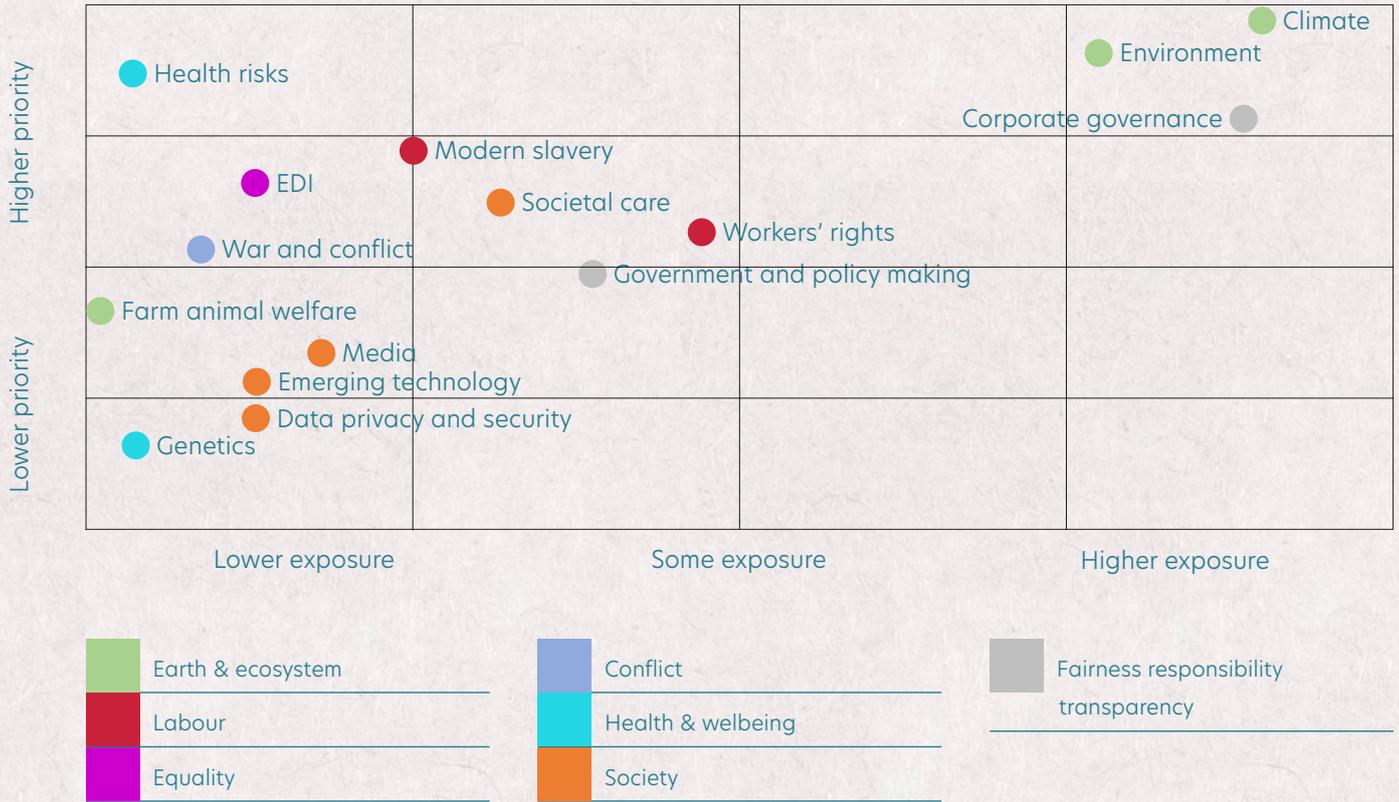
ESG INTEGRATION PROCESS



Ethical issues are at the centre of our company research and portfolio management process, and in the case of potential new holdings, often dictate whether we proceed with further in-depth research.

Issues that we focus our attention on are set by JACEI and ERIM and reflect the aims of the Methodist Church and our wider client base. We also engage with clients through an annual survey to determine the ethical themes clients feel most pressing for review. These inputs help us form a priority matrix that focuses our attention on client preference and portfolio exposure.

PRIORITY MATRIX



As at 31 December 2023

CARING ABOUT WHAT WE OWN

The United Nations (UN) has called upon the private sector in helping to free the human race from the tyranny of poverty and want and to heal and secure our planet. Epworth is determined to be bold in its approach to engagement with investee companies, and to draw upon the Sustainable Development Goals to help inform our investment decisions.

We have developed ethical pillars which represent a broad set of themes that encompass the ethical challenges facing investee companies. Each pillar is linked to one or more UN Sustainable Development Goal. By linking the SDGs, the CFB/Epworth gains a common industry voice and allows us to better measure our intended impact. We feel, through investing to promote these themes and improving corporate behaviour within these categories, companies have the potential to help improve the lives of people and the state of our planet.

We also use this as moral framework for positive screening. Not only is each potential holding screened for its compliance with our ethical policies

ahead of making an investment, but they are also screened for their potential positive impact on the economy, society and the environment.

Our negative screening process utilises third party data providers which provides us with in-depth information that can be used to assess companies' involvement in excluded products or services. Companies that violate our level of tolerance for product involvement are not eligible for investment.

CFB/Epworth recognises the increased complexities and scrutiny surrounding ethical investment and seeks to ensure the CFB/Epworth is both pragmatic and transparent in its approach, whilst maintaining the integrity of its ethics. Alongside setting clearer policies, setting levels of tolerance for exposure to ethical issues in directly held companies achieves both transparency and integrity.

The following levels of tolerance apply to directly held companies' percentage of revenue derived from issues that are unaligned with CFB/Epworth's ethical positions.

Issue	% of company revenue
High interest (Doorstep) lending	1%
Oil and Gas exploration, production, refining	3%
Thermal coal exploration and production	3%
Electricity production using fossil fuels	30%
Conventional weapons and other armaments	3%
Controversial weapons	0%
Non-weapon military components	5%
Distribution and sale of alcohol	10%
Production of alcohol	1%
Distribution and sale of tobacco	5%
Production of tobacco	1%
Gambling	3%
Adult entertainment	1%

Once we begin a holding in a company, we undertake regular reviews of their adherence with our ethical policies and the impact that their products and services have on society and the environment. This includes engaging with companies, often through face-to-face meetings.

While we apply our ethical screening and levels of tolerance across all geographies, we admit that engagement work can be harder to undertaken in certain parts of the world due to language barriers, cultural differences, and time zones. Where we can use collaboration to allow us further geographical reach, we take the opportunity.

We have often been encouraged by the increased attention that companies pay to ethical issues, though some companies continue to lag in this area, often having inadequate policies and reporting. This can sometimes make it difficult to compare one company against another and can also divert attention from the most pressing ethical issues. However, we have found that persevering with these inadequacies, which we often find most prevalent amongst smaller companies, can result in better outcomes in the long term.



CASE STUDY ► FAIRER FINANCE

An example of Epworth’s shareholder activism is reflected in some of its holdings in the UK financial services sector. Epworth’s parent organisation, the Central Finance Board of the Methodist Church, is a Living Wage Accredited Employer, and Epworth regularly engages with businesses, both directly and through collaborations, to encourage them to seek independent verification that they pay their staff a fair wage.

Epworth has two conviction holdings in the UK financial sector, wealth manager Brooks Macdonald and investment platform provider IntegraFin. Epworth selected these businesses because although they are far from the biggest operators in their respective markets, their efficient operating models and targeted approach results in industry leading profit margins, good customer service and strong organic growth. Both benefit from structural growth trends and trade on reasonable valuations whilst offering compelling returns on capital, which are the key criteria Epworth’s investment team seek in an investment.

Epworth has met regularly with the management of both companies since its shareholdings were established, pushing for both to improve their approach and disclosure around social responsibility and sustainability. One of the areas of success from these engagements is that Epworth has successfully persuaded both businesses to become Living Wage accredited employers.

Whilst pay in the finance sector is traditionally above the national average, this accreditation requires that contracted catering, cleaning and security staff are included. Epworth feel that the need for fair pay has taken on even greater significance in the cost of living crisis, and well run businesses can help tackle this issue at minimal additional cost to their own shareholders. It is fantastic that both businesses have responded positively to these engagements, and Epworth will continue to push for further positive changes from these and its other investments.



CASE STUDY ► MJ GLEESON SITE VISIT

As a shareholder in the UK housebuilder MJ Gleeson, Epworth was invited to visit one of its sites in Nottinghamshire to inspect the quality of the homes being constructed by the company, and learn about the positive impact this was having on the local area.

Located on the outskirts of the former mining village of New Ollerton, the area has suffered from economic deprivation and a lack of investment for many years, resulting in a shortage of attractive places to live for local families.

MJ Gleeson is building 305 high quality, affordable new homes on this site, equipped with family friendly gardens, garages and driveways. Two bedroom homes on the site start from under £165k, meaning a couple earning the National Living Wage can afford to buy many of the homes being constructed. The company is also contributing to the local infrastructure needed to support these new dwellings, such as schools, health care facilities and roads, providing over £1.2m to the local authority for this development alone.

These homes are designed to be efficient to live in, using almost 50% less energy than the average UK home – this not only saves running costs for residents, but also helps to reduce the considerable carbon emissions generated from the UK’s housing stock. In addition, instead of traditional gas boilers, more than half the homes on this site will have air source heat pumps installed.

As a long term shareholder, Epworth has been engaging with Gleeson for many years to improve the sustainability of the homes it builds. As well as this leading to the company shifting to installing heat pumps, Gleeson is also rolling out other initiatives, such as building with reconstituted bricks that have half the embodied carbon of traditional clay bricks. Gleeson has also employed a senior ecologist to improve the biodiversity strategy on each site Gleeson develops, another area where Epworth is continuing to push for improvements.

The site visit also provided Epworth an opportunity to see how Gleeson has overhauled its approach to construction waste, utilising data and centralising recycling areas on sites to ensure it contributes to the circular economy.

MONITORING MANAGERS AND SERVICE PROVIDERS

How we monitor and hold to account service providers.

OUR APPROACH

We use research providers to assist our investment managers in identifying and selecting conviction stocks across equities and corporate bonds, consistent with our Christian investing approach. We are particularly interested in providers, whose research touches on themes which are relevant to the ethical issues that we identify, and to the long-term success of individual companies.

Our dealing activities are outsourced to an external provider, which provides us with access to many liquidity pools, across different asset classes and geographies, and help us to demonstrate best execution in accordance with our regulatory reporting obligations. We review the performance of the external dealing provider each month and have a formal meeting with the provider each quarter to discuss any performance issues.

We carry out regular reviews of our service providers, typically bi-annually. Written reports are produced as part of this review process, which are discussed with senior managers within our organisation. In instances of where our review process identifies gaps in service provision, we set in place an action plan, aimed at plugging the gap in a timely manner.

We continue to review our research providers with respect to ethics, and the quality of output in this area, including through the extent to which this work benefits our research. This thematic approach to research providers continues to reassure us that we are gaining beneficial insight that complements and validates our own ethical work.

As part of Epworth delivering a platform offering for clients, platforms were assessed based on the external funds on offer and how well they met our ethical policies and the ethical needs of clients. This will better enable us to offer external fund exposure as part of our Multi-Asset Fund that is both strong from an investment and an ethical perspective.

2022 was an important year regarding monitoring our outsourced dealing provider, as our trade instruction procedures changed somewhat, and therefore monitoring our dealer was key to ascertain how well it was performing with these updated instructions. Data from our relatively new outsourced trade data analysis provider allowed us to be confident that our outsourced dealing function continues to perform well, thus helping us demonstrate best execution.



CASE STUDY ► POSITIVE ETHICAL SCREENING

The CFB/ Epworth has continued to utilise the Clarity AI platform to enhance our ethical research and due diligence capabilities. During the year under review, we have had frequent communications with the provider - including several in depth demonstrations with their teams to discuss new and improved features as the product evolves with the industry. Our core focuses included company exposure analysis (to ensure our tolerances are upheld) and carbon emissions data sourcing (scope 1, 2, and 3), these sessions have always come with the opportunity for us to discuss and query the methodology behind these tools with those who designed them.

Another focus/ engagement for the team has been with Clarity AI's ability to 'see through' and assess investment trusts, securities which mainly feature on the Multi Asset Fund. The platform has historically struggled with being able to examine these vehicles to the extent that it does with more typical equities. After several engagements from our side, Clarity AI has extended its reach in this area and continues to improve. This ongoing relationship is to provide us with an increasingly more comprehensive and holistic dataset accompanied by clear, transparent analysis to monitor our portfolios and screen any future opportunity.

ENGAGEMENT

How we engage with issuers to maintain or enhance the value of assets.

OUR APPROACH

As ethical investors with a Christian approach, we believe that engagement is a key part of our role, as it enables us – on behalf of our clients – to influence the behaviour of companies and ensure they are acting in a responsible way. We aim to target our resources where engagement best aligns with our client-aligned goals and has the greatest potential for success.

Our priorities for engagement are selected in accordance with the beliefs of the Methodist Church and the aims of our stakeholders, with engagement on specific ethical issues being set by JACEI and informed by our comprehensive set of ethical policies and client preferences. We employ a range of approaches to engaging effectively with companies, including writing letters to senior executives and board members, meetings with senior executives, and collaborations with other asset managers and organisations.

Our chosen engagement approach may differ depending on the size of the business in question, and where it is domiciled. For example, whilst we will tend to meet regularly with UK small and medium sized companies to discuss ethical issues, these opportunities are rarer for much large businesses

domiciled outside of the UK. In these cases, we are more likely to favour written engagements, or collaborations with other like-minded investors, to best engage on an identified issue. Our engagement approach does not tend to be influenced by the type of asset exposure we have to a business, such as whether we are a shareholder or a bond holder (or both). We will pursue whatever engagement method we think is likely to lead to the most positive outcome.

During the reporting period, we engaged with a number of companies, individually and collaboratively, on a range of ethical issues, including climate action, biodiversity, fair tax, modern slavery, safer work, workplace violence, community relations, operations in conflict zones, and human rights.

POLICIES FIT FOR PURPOSE

It's imperative that investee companies, clients and stakeholders have a clear, accessible view of the CFB/Epworth's position on particular ethical issues. As such, the CFB/Epworth, in collaboration with JACEI and ERIM, have developed a new policy format that concisely outlines our beliefs, expectations of investee companies, mechanisms for monitoring, and engagement plan. We feel this updated format produces clearer engagement objectives and better satisfies our obligation to client under consumer duty.



CASE STUDY ► HEALTH & WELLBEING INVESTMENT WITH BIOGAIA

BioGaia is a global leader in the research and development of probiotics, based out of Sweden. The aim of probiotics is to cultivate a healthy culture of microorganisms (healthy bacteria) within the body. BioGaia focuses specifically on gut, oral and bone health in both infants and adults under the L.reuteri bacteria strain.

BioGaia has been a conviction stock in the Epworth Global Equity Fund since 2019, and since then the stock price has appreciated over 60% (as of March 2024), representing a significant positive return for Epworth. It was added due to the growth characteristics it displays through its market-leading position in a sector with strong growth prospects as more and more people, globally, become conscious of their health and improving their standard of life. Inherently, investing in BioGaia also directly aligns with the Health & Wellbeing investment pillar at Epworth.

Alongside its strong performance, BioGaia is also a company with an equally strong moral compass and has driven sustainability in the sector. Some of the projects they have underway include goals such as using 100% recycled or biodegradable packaging by 2030 – something no-one else is doing in the sector due to the complexities of shipping medical products. The company is also participating in a worldwide initiative to prevent the resistance of antibiotics; and engaging in charitable work to provide proper healthcare for vulnerable women and children in the Philippines.

Recent engagement with the CEO of Biogaia, made it clear to Epworth that BioGaia is committed to improving public health and reducing the environmental impact of their activities. The management of BioGaia are strong believers that improving health requires a change at both a personal and societal level, to benefit people, society and the environment. This is reflected by the appointment of a dedicated sustainability officer and team in 2022.

COLLABORATION

How we participate in collaborative engagement to influence issuers.

OUR APPROACH

The CFB/Epworth view collaboration as a powerful tool to affect meaningful change in corporate behaviour. We actively seek to partner collaborative initiatives with like-minded investors, in particular the Church Investors Group, a collaborative organisation of faith-based investors, but also through other groups of responsible investors in the UK and overseas.

We work with not-for-profit organisations, and other investors to engage with governments on specific issues, such as climate change. Our involvement ranges depending on the coalition, acting as lead investor responsible for engaging with a company on behalf of others in some cases, and co-signing letters to companies in other cases.

Collaborative engagement activities are summarised in our quarterly Responsible Investment reports, which are sent to clients and published on the CFB and Epworth websites. Further details regarding collaborations can be found in the JACEI report, which is published annually.

We co-file and take an active role in the preparation of shareholder resolutions with other investors where these are deemed to be appropriate, and in response to material ethical and investment concerns that would otherwise have gone unaddressed.

We continue to be active partners in the IIGCC climate coalition that seeks material risk disclosure from high-impact companies on climate change resilience.

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OUR COLLABORATION PARTNERS

- ▲ Access to Medicines Index (ATMI)
- ▲ Access to Nutrition Index (ATNI)
- ▲ Business Benchmark on Farm Animal Welfare (BBFAW)
- ▲ CDP (formerly Carbon Disclosure Project)
- ▲ Institutional Investors Group on Climate Change (IIGCC)
- ▲ Members of the UK Sustainable Investment & Finance Association (UKSIF)
- ▲ ShareAction
- ▲ Climate Action 100+
- ▲ Find it, Fix it, Prevent it
- ▲ Faith Invest



CASE STUDY ► NATURE ACTION 100

Thinking around the Climate Emergency and our responsibility to the wider environment has grown in the last few years. Biodiversity has become a focus for investors, with the launch of Nature Action 100 in December 2022, and prior to that the Taskforce on Nature-related Financial Disclosures (TNFD) in July 2021. According to a WWF publication, there was an average decline of 69% in species populations since 1970.

The CFB and Epworth is a signatory to the Nature Action 100 with three focus companies and will engage with the purpose to reduce the impact of their operations on nature by 2030, through setting specific targets and disclosing annually against them. NA100 has investor expectations of companies across six areas which are:

- ▲ **Ambition:** Publicly commit to minimise contributions to key drivers of nature loss and to conserve and restore ecosystems at the operational level and throughout value chains by 2030.
- ▲ **Assessment:** Assess and publicly disclose nature-related dependencies, impacts, risks, and opportunities at the operational level and throughout value chains.
- ▲ **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.
- ▲ **Engagement:** Engage with external parties including actors throughout value chains, trade associations, policy makers, and other stakeholders to create an enabling environment for implementing the plan and achieving targets.

This builds on the engagement work we have already undertaken with a number of investee companies such as MJ Gleeson and Anglo American on this topic to date.

One such company is The Home Depot, a multinational home improvement retail corporation that sells tools, construction products, appliances, and services, including fuel and transportation rentals. Home Depot is the largest home improvement retailer in the United States. The Home Depot utilises and sources many wood products for customers. Policies in place look to protect forests and support future timber resources. The engagement group has met to discuss the company's approach to biodiversity, and we look forward to meeting with the company in the near future.



CASE STUDY ► CEASING FOSSIL FUEL FUNDING

Our engagement with Anglo American continues as part of Climate Action 100+ (CA100+). CA100+ defines itself as an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. CFB/Epworth are co-leads with others engaging with the company on its climate action. The goals of CA100+ are:

1. Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk;
2. Take action to reduce greenhouse gas emissions across the value chain, including engagement with stakeholders such as policymakers and other actors to address the sectoral barriers to transition. This should be consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2°C above pre-industrial levels, aiming for 1.5°C. Notably, this implies the need to move towards net-zero emissions by 2050 or sooner; and
3. Provide enhanced corporate disclosure and implement transition plans to deliver on robust targets. This should be in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and other relevant sector and regional guidance, to enable investors to assess the robustness of companies' business plans and improve investment decision-making.

CFB/Epworth began engagement with Anglo American in 2017 at the launch of the initiative. Our goals for the engagement were to:

1. Decarbonise its asset mix in response to the climate crisis.
2. Better understand the company 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.

During the year under review, the CA100+ engagement team continued to focus on the company methane emissions. This has been mostly led through letters to the CEO. We have an upcoming meeting ahead of the company AGM in April 2024 to discuss the methane emissions reduction to date, and the plan for future reductions. In conversation with the mining sector and experts in the field, the engagement group has identified methane abatement technologies. The group is now exploring with Anglo American the appropriateness of these technologies across geographies. The next steps for the group is to evaluate the Anglo response to these proposals, including the possibility of setting methane reduction targets and discussion capital allocation towards abatement technologies.

We periodically assess the company engagements against the internal objectives set to ensure we are using our resources to the best of our abilities.

ESCALATION

How we escalate stewardship activities to influence issuers.

OUR APPROACH

CFB/Epworth is entrusted with the responsibility of managing clients' money. This responsibility extends beyond just financial returns; it also includes considering the impact of their investments on people and planet. These considerations are integral to client interests for two main reasons. Firstly, poor corporate behaviour can pose significant financial risks to the long-term value of investments. Secondly, many clients and their stakeholders are increasingly concerned about the negative impacts their investments may have on the planet and its inhabitants, as well as opportunities to invest more positively to promote change. Therefore, it's essential for CFB/Epworth to integrate these broader considerations into our investment and stewardship decisions- aligning with the interests and values of our clients and their stakeholders.

The primary means to exercise stewardship is through good investee engagement. Good engagement involves actively collaborating with, and sometimes challenging, investee companies to influence and improve their environmental, social and governance behaviours. Ultimately, good engagement should result in tangible improvements of investee practices and contribute to the creation of long-term value to investors, investee companies and society as a whole.

As responsible investors we seek to meet and engage with company management in an open and constructive manner, and on a face-to-face basis, to understand the issues and raise our concerns. We do not subscribe to the view that one size fits all, and a nuanced, case by case approach may be appropriate depending on the circumstances.

Ahead of taking a decision to escalate engagement, we will write briefing reports, which outline the ethical issue or issues that are of concern, how they relate to our range of ethical policies, and the target outcome of the engagement. The reports are reviewed at JACEI and ERIM meetings, with JACEI and ERIM providing guidance on the appropriate escalation strategy.

Escalation would normally occur if a request went unanswered or is inadequately addressed. An internal mechanism has been adopted for escalating engagement in the event of a company's unwillingness to respond or engage. Typically, we engage with companies via written communication, allowing approximately 30 days for a response; after which a written reminder will be sent. Where no response thereafter is forthcoming, the usual method of escalating contact with investee companies is via senior management; the Chief Executive (for strategic and operational matters) or the Chairman and Senior Independent Non-Executive Directors (for governance and other issues)

We are willing to share and make our views known when concerns are not fully met, and we actively collaborate with other like-minded investors in the event of an escalated approach, which may include submitting special resolutions at general meetings.

Occasionally, our escalation strategy fails to yield the targeted engagement outcome, at which point JACEI and ERIM will advise us on appropriate next steps. Escalation tools are utilised across geographies.

The media has become a powerful tool to leverage meetings with investee companies. The CFB/Epworth frequently expresses its views in the press, particularly highlighting company actions that consistently or majorly contradicts our view of a sustainable planet and just society.

ESCALATION PROCESS STAGES

7. **CONTROLLED DISINVESTMENT** → Reduce exposure
Divest/exclude
6. **PUBLIC ADVOCACY** → Press and media pieces
5. **INTENSIFIED ACTION** → Co-file shareholder resolutions
4. **ACTION** → Ask questions at company AGMs
Vote against standing items
Vote in favour of ESG resolutions against management recommendation
3. **ENHANCED CHALLENGE** → Collaborative letters to senior management
Collaborative calls/meetings with senior management
Challenge management on earnings calls, events, and roadshows
Public letters and statements
2. **ONE-TO-ONE** → Non-routine, unilateral calls with individuals within the company
Unilateral letters to senior management and board
1. **BUSINESS AS USUAL** → Regular calls and meetings with company
Setting clear expectations with company
Taking part in research, investor forums, publishing thought pieces
Large-scale signatory initiatives



CASE STUDY ► HSBC

Continuing the engagement work on HSBC done by the CFB/Epworth, Andrew Harper, Chief Responsibility Officer, was recently interviewed by ITV's Business and Economics editor Joel Hills after an investigation by the Bureau of Investigative Journalism revealed that HSBC, despite its climate pledges, is continuing to support expansionist oil and gas projects. We escalated this engagement using the press to apply pressure on the company to change. Part of his interview featured on the online article as well as on the ITV News at Ten as the primary news topic on Friday the 19th of January 2024.

This can be found here:

<https://www.itv.com/news/2024-01-19/hsbc-duping-public-after-helping-raise-37bn-for-new-oil-and-gas-fields>

As a result of increased attention, HSBC has agreed to start publishing its off-balance sheet emissions from where it advises on capital raising for oil and gas companies. This is a big win for engagement with the bank, and hopefully will start a domino effect and encourage other banks to publish the same details.

More information can be found here:

<https://www.ft.com/content/7a97e9c9-444f-4a5a-88ee-e5e9a8aea4d2>

EXERCISING RIGHTS AND RESPONSIBILITIES

How we actively exercise our rights and responsibilities.

OUR APPROACH

The CFB and Epworth supports the principle of considered voting, believing that shareholders have a vital role to play in encouraging high standards of corporate governance from the perspective of being long-term investors. We will therefore register and vote proxies at all meetings in which we have a shareholding.

In calendar year 2023, we voted in 98% of meetings covering companies that we hold across all geographic regions. Unvoted meetings were due to share blocking or operational barriers.

As long-term investors, we believe a pragmatic approach best fulfils the objective of building shareholder value over time. We will seek to engage pro-actively with companies where either existing corporate governance arrangements or management proposals cause concern.

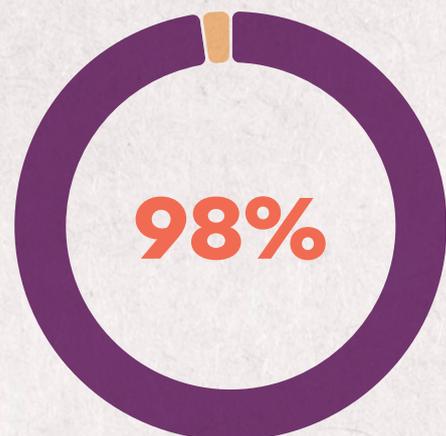
Client assets are held via unitised structures and therefore individual client preferences on voting outcomes cannot be catered for. However, we fully disclose our ethical policies, including voting and engagement activity, both at the commencement of a new relationship and on a regular basis during it.

The CFB and Epworth have developed a common voting policy in conjunction with other members of Church Investors Group which represent asset owners of £20bn. The policy is designed to promote best-practice standards of corporate governance.

The detailed guidelines set out in the policy are administered by proxy voting agency ISS, on a global basis.

We hold companies from across geographies, and our voting policy reflects this in multiple ways. Whilst we try to be consistent in our voting, we recognise there are different norms around the world, and therefore our policy allows for companies to be considered against local market standards as well as our broader criteria.

Remuneration issues tend to dominate our voting considerations where we have concerns about the structure or quantum of the award to the directors. We want to encourage long-term performance. We may also vote against where there isn't sufficient reference to ESG criteria within the long- or short-term bonuses.



We often vote against committee chairpersons where we believe a company has not made progress on issues such as gender diversity, audit independence, or executive remuneration. In some cases where we do not see progress over multiple years, we may vote against the entire committee.

Where we vote against a company board committee, member or item on the ballot, this is outlined in our voting summary template on the website (see link), and companies are informed of this rationale. Through our voting partners, we write to FTSE 350 companies annually to inform them of the voting policy and changes from the prior year.

Our summary proxy voting reports are published electronically each quarter, whilst a full voting record is available on request. In accordance with CIG common voting policy, the CFB and Epworth do not arrange stock lending and recall.

Voting outcomes are monitored closely to ensure they are appropriate and comply with the policy template. Any controversial, or off template votes are discussed within the team and approved by ERIM.



CASE STUDY ► VOTING

CFB/Epworth utilises a voting template developed in collaboration with other like-minded investors. Part of this template encourages the CFB/Epworth to vote on a variety of environmental, social and governance issues, which may be against the advice of both company management and the proxy advisor. Sometimes these can be shareholder resolutions.

One example of where CFB/Epworth assessed the shareholder resolution and voted in favour (against the advice of management and the proxy advisor) was in the case of The Toronto-Dominion

Bank. There is pressure being applied to banks across the world to align their policies on lending with the Paris Accord. CFB/Epworth assessed a shareholder resolution that asked the company to disclose the transition activities it was undertaking to meet its 2030 emissions reductions targets and decided to vote in favour. This resolution failed with only 23.5% of shareholders voting in favour. It has come back to the ballot in 2024 where CFB/Epworth has supported the shareholder resolution once again.

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Central Finance Board of the Methodist Church

("CFB") is a statutory body established by the Methodist Church Funds Act 1960 and is not considered to be carrying on a regulated activity within the meaning of the Financial Services & Markets Act 2000.

The CFB Funds are designed for the long term investment of the funds of all parts of the Methodist Church and its associated charities. The value of units in the funds can fall as well as rise, as the funds reflect the value of the investments held in them. The level of income is also variable. The funds will therefore not be suitable for use if the possibility of capital losses or reduced income cannot be accepted.

Any estimates of future capital or income returns or details of past performance in this document are for information purposes and are not to be relied on as a guide to future performance. The CFB does not provide investment advice and nothing in this document is to be treated as such.

Epworth Investment Management Limited

("Epworth") is authorised and regulated by the Financial Conduct Authority (FCA Registered Number 175451). It is incorporated in England and Wales (Registered Number 3052894), with a registered office at 9 Bonhill Street, London EC2A 4PE and is wholly owned by the Central Finance Board of the Methodist Church. Epworth-managed funds are designed for long term investors.