

Epworth
Investing Faithfully

QUARTERLY REVIEW | Q3 2024

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



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REVIEW OF THE QUARTER

ECONOMIC OVERVIEW

The third quarter of the year saw some key developments to the broader economic narrative. US economic momentum finally showed more significant signs of slowing, with unemployment rising and inflation falling more than anticipated over the summer. This resulted in the US Federal Reserve cutting interest rates by 0.5% in September, the first cut since the onset of the covid pandemic in early 2020, signalling that emphasis was shifting from tackling high inflation to ensuring economic growth remains positive in the world's dominant economy.



Geopolitics remain a significant risk for investors to watch.

Matt Jones – Head of Asset Allocation

Market volatility has stemmed from the continued reliance on economic surveys and data to shed light on whether inflation is back under control, and if economic growth can continue despite elevated interest rates and waning support from government spending. However, this data can be poor quality, backward looking and contradictory, which makes accurately assessing the investment outlook challenging for both investors and policy makers. Central banks in Europe and the UK also began cutting interest rates over the summer, with the pace and scale of further cuts likely to be determined by economic and inflation momentum in each economy.

By contrast, Japan has been forging its own economic path, having not seen the rampant inflation that has taken place elsewhere over the last few years. The central bank has begun trying to raise interest rates above zero this year for the first time in 15 years, but doing so at a time when other central banks are cutting rates has caused significant volatility for the Japanese currency and equity market. In addition, Japan's government has been under significant pressure, resulting in a leadership election in September and snap elections before the end of the year.

Combined with the imminent US presidential election where Joe Biden is no longer the Democrat nominee, this means there is still plenty for investors to navigate even though election results this year have already provided greater certainty in the UK,



France, Mexico and other parts of the world. In addition, the Chinese economy has drifted further and further towards recession this year, prompting the government to launch significant stimulus measures at the end of the quarter that helped Chinese assets recover prior losses.

In addition, geopolitics remains a significant risk for investors to watch, with escalating conflict in the Middle East towards the end of the quarter marring a previously quiet summer. Epworth's exclusion of oil related investments has been beneficial in recent months, with softer demand and strong supply resulting in the oil price falling to levels not seen since before Russia invaded Ukraine. However, this has the potential to reverse in the final quarter of the year.

INVESTMENT OUTLOOK

Epworth's base expectation is that the global developed economy is returning to a lower growth path under the weight of significant government debt levels that will require lower interest rates. The risk of recession remains but strong service activity data suggests this can be avoided. The events of the third quarter have done little to shift this broader expectation, which should mean steady but not spectacular asset performance.

We retain neutral equity exposure given risks to earnings may be offset by support from lower interest rates. We continue to prefer bonds given expectations for interest rate cuts and slowing inflation, and have increased exposure to sovereign debt rather than corporate bonds due to tight spreads and economic risks. We continue to have a negative view towards property assets given structural issues around offices in particular. Within alternatives, we have increased exposure to commodities given geopolitical risks, with more selective infrastructure exposure.



BUILDING A GREENER FUTURE

One of Epworth's ethical pillars is Earth & Ecosystem, describing our investment approach seeking solutions to the challenges facing our planet. Part of this involves investment in the construction industry, which is responsible for around 15% of global emissions and increasingly scrutinised for its use of carbon-intensive materials. Epworth invests in multiple companies looking providing solutions to this issue.

One example is Swiss company Sika, a global leader in specialty chemicals , with a strong focus on sustainability and accounting for 11% of the global construction chemical supply. Sika's products, particularly in concrete and cement, directly address the sector's significant embodied emissions.

Sika has developed advanced admixtures that improve the performance and reduce the carbon intensity of concrete, and the company has also created carbon-sequestering materials and enhanced energy efficiency across their production processes. Moreover, Sika is working on products that can extend the lifecycle of buildings, thereby reducing the need for new construction and the associated emissions.

Epworth also invests in US company Autodesk, a leader in creating software used by architects, engineers, and construction professionals. Their programs allow designers to create detailed digital models of buildings before they're constructed. This technology helps reduce the environmental impact of buildings in several ways:

- Improved efficiency by simulating how buildings will use energy, helping designers create structures that require less energy to operate.
- The software also helps in minimising waste by allowing builders to plan more accurately, reducing the materials needed.

Autodesk is enabling the construction industry to build smarter, more energy-efficient buildings, which in turn helps reduce carbon emissions.

By investing in Autodesk and Sika, Epworth's clients are helping to drive positive change in the construction industry and supporting the transition to a more sustainable future.



RESPONSIBLE INVESTMENT REVIEW

During the quarter we received confirmation that our FRC Stewardship Code submission was approved, and we remain signatories for another year. The theme this year was '50 years of better', recognising the significance of the heritage that the CFB and Epworth have in ethical investing. Our latest report can be found here:

<https://epworthim.com/app/uploads/2024/07/Stewardship-Report-2023.pdf>

NESTLE

Following on from our voting pre-declaration on Nestle regarding healthy foods, we had an opportunity to meet with the company and ask questions of the approach. The resolution was defeated overall, despite ours and other investors' support for it. From the meeting, we were pleased that Nestle has committed to a target that is meaningful and are committed to growing the nutritious side of the portfolio.

During the Nestle meeting, we also had the opportunity to discuss the implementation of the EU deforestation law which comes into effect from Q4 2024. The European Commission describes it as: *'Under the Regulation, any operator or trader who places these commodities on the EU market, or exports from it, must be able to prove that the products do not originate from recently deforested land or have contributed to forest degradation.'* We can see the case where there may be unintended consequences to this regulation with the EU having 'deforestation free' commodities, and outside the EU products still having deforestation within the supply chain. Nestle noted its own zero-deforestation commitment for many commodities by 2022, and for cocoa and coffee by 2025, and its approach to supporting affected farmers.

SHARE ACTION - ETHNICITY PAY GAP

In August, we were able to meet with Cranswick as part of a ShareAction initiative to discuss ethnicity pay gap reporting. This is the first time that Epworth has been involved in the call, although the coalition had met with the company before. The coalition had decided to focus on engaging food producers as the sector often



has lower paid workers from season schemes. It was useful to understand some of the complications of gathering ethnicity data from the company, recognising that not everyone has access to the same technologies that make reporting easier. It was also good to challenge the company on its ethnicity within its senior management team and learn about future plans.



CHILDREN'S ISSUES

In line with our growing ethical focus on children's issues, we are screening the Epworth Funds for companies with exposure to a range of children's issues. Our initial work focuses on ten companies with particularly significant exposures:

- Anglo American
- Centrica
- Intercontinental Hotels Group
- L'Oréal
- Nestlé
- Next Group
- Reckitt Benckiser
- Rio Tinto
- Tesco
- Unilever

Our intention is to focus on companies with which future engagement can be a legitimate and productive possibility and three key areas have emerged across our research: child labour, worker rights and the environment.

Child labour was especially prevalent across five of the companies, including L'Oréal where children are employed in the picking of jasmine flowers for their perfumes and mica mining for cosmetics. Mica mining has an especially high fatality rate with the use of illegal, but more profitable, processes involving sending children into small underground tunnels and breaking the walls to obtain mica stones. In both cases, L'Oréal has become part of a coalition to improve working conditions and encourage child protection, offering productive avenues for engagement to ascertain the real, material benefits of this.

Both Reckitt and Unilever were found to be profiting from child labour on palm oil plantations in Indonesia in 2016. We plan to engage with these companies to ascertain what changes they have made in the intervening years to eliminate child labour from their supply chains.

Unilever and Tesco were found to be negatively impacting the environment through



their operations, destroying the planet for future generations. Tesco was discovered to be complicit in illegal deforestation in the Brazilian Cerrado through the soya used for their chicken feed, while Unilever are undertaking a knowingly destructive plastic sachet endeavour in the Global South. This practice is especially concerning as their single-use, single-portion plastic sachets are based on the exploitation of low-income individuals, replacing Filipino 'tingi' culture where people would come to their local corner shops with reusable containers to collect the exact amounts of certain household items that they needed. Despite claims that the company is focused on less, better or no plastic, their production of plastic sachets has increased significantly over the last decade.

Both companies claim to be committed to the future of the planet, suggesting discontinuity between words and actions.

A further concerning trend we're observing is companies placing the pursuit of profits over the health and wellbeing of children. Nestlé, for example, was found to be exploiting variations in regulation from country to country when determining the sugar content of their cereals for infants. While these products in countries such as Germany and the UK are sugar free, the equivalents in many low and middle-income countries were found to contain up to 6g of sugar per serving, exposing these infants to a potential life-long preference for sugary products.

Overall, our research showed a fundamental disconnect between the policies of many of these companies and their actual actions, with all but one of which ranking within the top 20% in the GCF Children's Issues Benchmark, which largely evaluates presence of policies on children's issues and their implementation. These findings should provide the basis for preliminary engagement on these issues as we seek to integrate children's issues into our ethical investment principles.



PERMANENT PLASTICS

Plastics are everywhere.

From the moment we wake up and brush our teeth with a plastic toothbrush to the time we take a sip from a water bottle or grab a snack packaged in plastic, they are a constant presence in our lives. Durable and versatile, plastics have become so integral to modern society that it's hard to imagine a world without them. But not all plastics are created equal. Some are designed to last—and last they do, for centuries. These are permanent plastics, and while their durability is their strength, it's also their greatest flaw.

Permanent plastics, like polyethylene, polypropylene, and PVC, have become indispensable for many companies. Take, for example, brands like Unilever and Procter & Gamble. Their products are housed in colourful bottles and containers, often made of plastics that might remain on the planet long after the contents inside are used up. The automotive and electronic industries depend heavily on permanent plastics. Ford, Toyota, and Samsung incorporate these materials into everything from dashboards and car bumpers to smartphone casings and cables. And it's not just adults using these products—children's toys from companies like LEGO and Mattel are also made from these same plastics.

The problem with permanent plastics lies in their name—they're "permanent." Designed to withstand wear and tear, they don't biodegrade easily. Instead, they break down slowly, fragmenting into smaller pieces called microplastics that persist in the environment for hundreds of years. This persistence means that while plastics make our lives more convenient today, they are also creating an overwhelming amount of waste that future generations will have to deal with.

This waste has consequences, both for human health and the planet. For starters, the chemicals in plastics—such as BPA and phthalates—can leach out over time, entering our bodies through food, water, and even the air we breathe. These chemicals disrupt hormones, impacting everything from fertility to brain development. Research has even found tiny plastic particles in human blood. And though the long-term health effects of these microplastics are still being studied, the potential risks—especially for



children—are alarming. Kids, with their smaller bodies and developing systems, are particularly vulnerable to exposure, whether through plastic toys or the microplastics increasingly found in food and water.

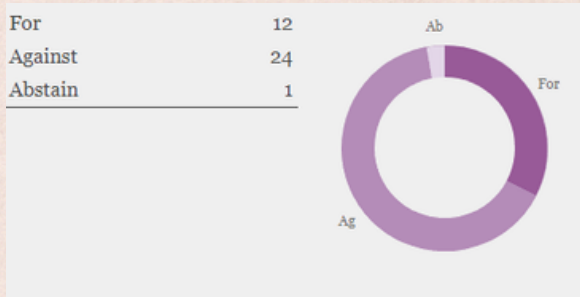
Then there’s the environmental toll. We’ve all seen the images: plastic debris floating in the ocean, entangling sea life, and littering pristine beaches. Every year, millions of tons of plastic waste end up in our oceans, contributing to the Great Pacific Garbage Patch—a floating mass of plastic debris roughly twice the size of Texas. Marine animals mistake these plastics for food, and many die as a result of ingesting them. Worse still, as these plastics break down into microplastics, they contaminate the entire marine ecosystem, potentially ending up on our dinner plates in the form of seafood. The impact on children is perhaps the most troubling part of this story. Many toys, bottles, and everyday products are made of permanent plastics, and while regulations have tightened in some places, harmful chemicals are still a concern. Children are constantly exposed to plastics, from the packaging of their food to the toys they play with. Over time, this exposure adds up.

In the end, permanent plastics are a double-edged sword. They offer us convenience, durability, and a way to package and produce goods that have become part of daily life. But they also present a growing problem that, as investors, we cannot ignore.

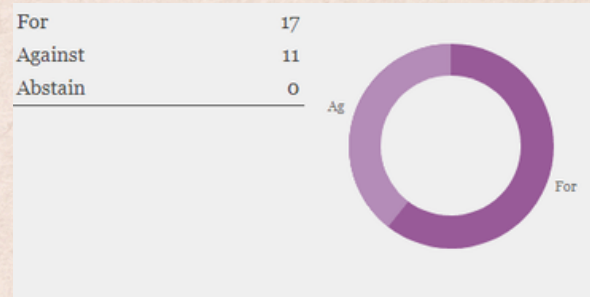


EPWORTH VOTING SUMMARY Q3 2024

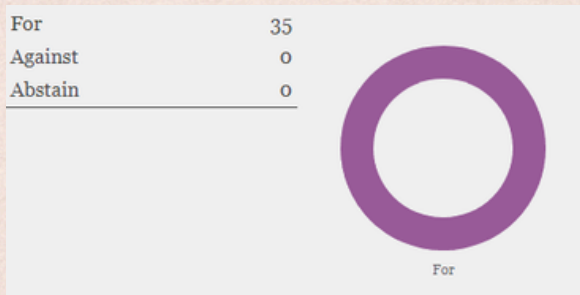
Remuneration reports



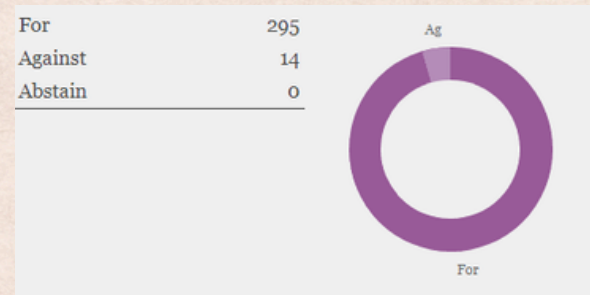
Executive pay scheme



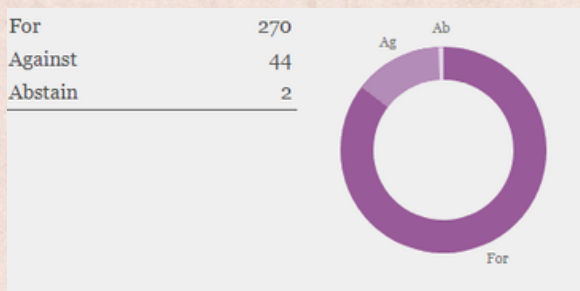
Auditors appointment



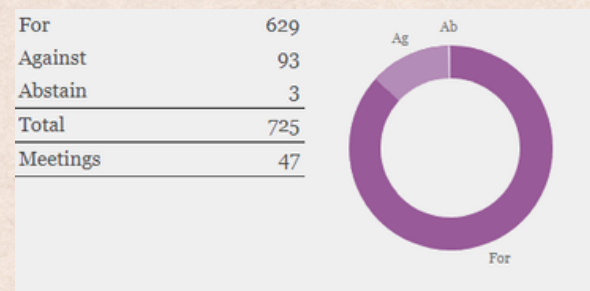
Other



Directors



Total votes



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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