Epworth
Investing Faithfully

QUARTERLY REVIEW | Q4 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

> Struggling economic momentum in Europe and the UK is giving rise to talk of ‘stagflation’.
>
> Matt Jones - Head of Asset Allocation

The final quarter of 2024 was dominated by the election of Donald Trump, marking a likely change of direction on US trade and tax policy with implications right across asset classes. His election drove US equities, the US dollar and borrowing costs significantly higher, in anticipation that he will de-regulate US domestic business and cut taxes whilst placing significant tariffs on international competitors. These moves were supported by much better-than-expected US economic momentum, increasing inflation risks and reducing the number of likely interest rate cuts in 2025.

Meanwhile in Europe and the UK, economic momentum continued to struggle whilst inflation risks in parts of the economy remain present. This is giving rise once more to talk of ‘stagflation’, where these economies endure higher than desired inflation whilst struggling to deliver economic growth. This is a toxic mix for investors to handle and for policymakers to correct, particularly given the stretched balance sheets of many Western governments since the pandemic. The lack of economic progress is being felt by citizens, with ongoing political chaos in France, the collapse of the governing coalition in Germany and the rise of populist politics across the continent.

Momentum has also stalled in China despite renewed efforts by the government to stimulate the economy after a torrid couple of years through the pandemic. With an ageing population and increased barriers to trade with the West, as instigated by Trump, China’s stock market is cheap for several reasons.

2025 INVESTMENT OUTLOOK

For investors, there are both opportunities and challenges arising from the election of Trump. Stronger economic data coinciding with this change of government provides huge support to equity valuations and investor confidence, at a time when the growth outlook in other major economies continues to look challenging. The US stock market continues to trade at much more expensive levels than counterparts in China, Europe and the UK, but a significant part of this discrepancy is arguably justified by the deeper and more dynamic list of companies available to investors in the US market, coupled with the fact that Europe and the UK can barely sustain GDP growth of 1% at present, compared to almost 3% in the US.

Trump's election victory suggests higher near-term US economic growth and global inflation than would otherwise have been the case. This suggests higher interest rates for longer than previously expected for at least the initial phase of his presidency, given his plans to further stimulate an already strong US economy. In Epworth's view, this is positive for equities, particularly US equities, and negative for bonds, particularly sovereigns. Client portfolios are being adjusted to reflect these views.

However, Trump is famously unpredictable, a characteristic that challenges investor confidence. His rhetoric around geopolitics and trade barriers will ensure bouts of volatility that could affect asset values, making portfolio diversification even more important. Within allocations to alternatives, weights in commodities in the form of gold and European carbon permits have been increased, funded by a reduced weight to interest rate-sensitive infrastructure. This provides greater portfolio diversification, reflecting the risks of higher volatility under a Trump presidency.

Whilst his plans are likely to raise near-term growth, his tax cuts will cost the US government money at a time when it is already borrowing record levels from investors. This is likely to weigh on longer-term growth potential, particularly if higher borrowing costs are sustained. At Epworth, we are vigilant of these risks, ready to react at the point where allocations may need to shift more defensively.

Beyond Trump, there is an election in Germany in February and ongoing political chaos in France. This suggests the near-term outlook for European equities will remain challenged, though if Trump successfully brokers an end to the Ukraine war on terms not unacceptable to Europe, it could help turn sentiment on the continent in a more positive direction. European and UK equities remain cheap, as has been the case for some time. This is currently justified by the poor growth being achieved by these economies, but later in 2025, we could reach a point where that has a chance of changing for the better.

We remain underweight emerging markets, where we see the higher US dollar and interest rates under Trump as unhelpful to the investment case in these markets. Portfolios remain minimally exposed to property, as has been the case since 2022, when interest rates rose sharply. Whilst there have been some signs of recovery in parts of the property market, this could be curtailed by interest rates remaining higher for longer.

Epworth published a more detailed market outlook piece before Christmas, which you can find here.

RESPONSIBLE INVESTMENT REVIEW

Financial Sector Ethics

We recently began investigating the ethical standing of our financial holdings within our portfolios, with the ultimate aim of seeking positive evidence of alignment with our ethical pillars, in keeping with Epworth's ethos to focus on the positive areas of investment. Our report did however uncover instances of non-alignment, highlighting the relevant ethical pillars in each case. Earth and ecosystem, health and wellbeing, and conflict were the pillars presenting the largest number of ethical challenges among the financial institutions amidst the context of the Israel-Palestine conflict and climate change.

Focusing on the environmental factors first, we utilised Clarity AI, concentrating on the financial institutions' policies and controversies in areas such as carbon emissions, energy use and hazardous waste, and the 2024 Banking on Climate Chaos report which uncovered the extent of banks' financing of various fossil fuel projects. Interestingly, Clarity AI scored the financial holdings relatively highly overall despite the BOCC report's highlighting a number of worrying trends, suggesting an overall disconnect between policy and actions. The BOCC report revealed that banks such as JPMorgan had in fact increased their funding of fossil fuel projects between 2022 and 2023, while many, including HSBC and Wells Fargo, began leaving international climate initiatives such as the Equator Principles and the SBTi, underlining the continued prioritisation of profit over climate. With their size and influence, financial institutions have the power to effect real, positive change in this area, though it appears they are yet to do so.

Among the other concerns raised by the report emerged two key areas, discrimination and links to states with questionable ethical records. Under discrimination, we found Bank of America to be closing and restricting accounts owned by individuals of Iranian heritage, regardless of their citizenship while Berkshire Hathaway was similarly found to be avoiding providing home loans to minority groups, treating potential customers unfairly and ignoring the concepts of equality and fairness. Goldman Sachs is currently embroiled in a long-term gender discrimination and sexual harassment case brought forward as a class action lawsuit after the original case was dismissed.

The bank has tried to keep documents related to the case secret and has campaigned to reduce the size of the class while dismissing the women's claims, pointing to a fundamental lack of empathy and care and a disregard of ethical principles.

Bank of America, Wells Fargo and JPMorgan were all included in a UN press release calling on companies to end investments in businesses linked to the Israeli military, while HSBC and RBC were found explicitly to have investments in companies directly supplying the IDF and its campaign in Gaza. Interestingly, Goldman Sachs was also found to have donated to a controversial anti-Israel organisation, the People's Forum, whose anti-Israel rhetoric is unequivocal in its calls for the end of the Israeli state.

HSBC has furthermore been found denying pension payouts, being one of three banks responsible for the Hong Kong state pension, to those fleeing the authoritarian crackdown in the country and, moreover, has shares in Xinjiang Tianye, who have been accused of human rights abuses against Uyghur Muslims. Similarly, UBS has shares in Tencent, the parent company of WeChat who are accused of censoring and collecting private messages on the platform as a means to justify incarcerating Uyghurs and Tibetans. The ethical concerns here are complex and serious.

The identified ethical issues within the report, though not necessarily pointing towards a need to divest from these holdings, do suggest a disconnect between ethical policies and actions and call for a more stringent attitude from the institutions towards ethics to ensure that profit does not eclipse ethical concerns. Our next step will be to use this information to determine scales of ethical good within our holdings, creating a holistic image of financial institutions and their ethical positions.

CHILDREN: THE FORGOTTEN CONSTITUENCY IN INVESTMENT STEWARDSHIP

Since responsible and sustainable investment became well established as an integrated investment strategy, investors have witnessed an ever-increasing number of issues and initiatives brought into the fold of what might be considered of material environmental, social and governance (ESG) importance. Asset owners and managers have now closely integrated major themes such as climate change, modern slavery and wider human rights into their risk review systems and processes. This, in turn, has seen an exponential rise in business awareness and competence in assessing, for instance, climate risk and supply chain due diligence. Investors have been helped by a proliferation of helpful 'benchmarks' and 'indices' designed to help investors match their ethical values with investment returns. Many of these tools have become well-established; Access to Medicines Index (2008), Access to Nutrition Index (2013), and the Business Benchmark on Farm Animal Welfare (2012) are just three, whilst the Principles of Responsible Investment (PRI), with its roots going back to 2005, has become a global institution of 5,000 asset owner and manager signatories from over 80 countries committed to a framework of actions that seek to incorporate environmental, social and governance factors into investment practices across diverse asset classes.

All of these myriad initiatives by the global investment community have undoubtedly progressed significant change. However, perhaps surprisingly there is one area of investment activity that has remained relatively ignored by investors: children. Children as a constituency have been broadly overlooked by investors and fund managers, despite their being a target audience for global business. Children have no agency, little lobbying power, and in the main only secondary financial power via an adult parent or guardian. This is to ignore however, the profound impact business – for good or ill – may have on children as participants in the economy, or as parties potentially exploited by it.

Over the course of a series of articles in 2025, Epworth Investment Management wants to begin to explore the significance of this omission, and to inform a conversation, via a developing engagement strategy on behalf of clients around children. For Epworth, giving children a voice in the broadening ESG landscape is not new. Epworth's parent, the Central Finance Board of the Methodist Church (CFB), saw as early as 2009 when it


was first articulated, it pointed to 'a need for an extra ethical dimension for issues such as children's rights that transcend the traditional company sector based ethical framework'. The CFB recognised, perhaps uniquely among UK investment managers, that research on companies should identify the particular areas of ethical concern relating to children. Engagement with business was identified as needing to be 'proactive in bringing children's ethical issues to companies' attention'.

Children are impacted in two ways which we will separately explore across these articles in 2025. Whilst being inherently economically weak, they are naturally impressionable and open to 'highly suggestive' marketing and advertising practices: Sectors of impact here for instance include food and nutrition, alcohol, gambling, tobacco and vaping. The technological age we are now fully immersed in has had a compelling impact on young people. Whilst technology affords so much that can be positive, both social and educational, there is more and more evidence suggesting a deepening crisis in mental health brought about by the negatives surrounding technological addiction and misuse. The second area children are impacted is in their global exploitation in manufacturing, agriculture and extended supply chains. Even in the UK where there is legal protection, child modern slavery is estimated to affect over 7,000 children[1]. These are issues responsible companies cannot turn a blind eye to, and over which they must exercise ownership.

As pioneering ethical investors in the UK, applying Christian ethics in all we do, Epworth Investment Management strongly believes children can no longer be ignored when it comes to exercising responsible stewardship in investment. Throughout 2025 we will develop and extend our thinking on children's issues in a series of articles and with a refreshed approach to engagement. This is doubly fitting as 2024 marked the 35th anniversary of the UN Convention of the Rights of the Child, which has become one of the most supported United Nations Conventions of all time, ratified by 196 countries,[2] and in the United Kingdom since 1992.

The Convention, across its 54 Articles, enshrine the global rights any child is entitled to. There is still much to do in implementing and ensuring every child is able to benefit

from the rights therein enshrined. At the time of writing, it seems likely that the Chinese fashion chain, Shein, now based in Singapore, will seek to list on the London Stock Exchange, potentially becoming one of the biggest IPOs (initial public offering) in recent years. More controversially, responsible investors will have to decide whether Shein meets their ethical conditions for investment given the swirling allegations of child and forced labour in the supply chain, fears that were not allayed under the interrogation of the UK Parliament's Business and Trade Committee on January 7th. Shein in microcosm perhaps shows why an emphasis on children is still so timely and important.

In next quarter's Investment Review, we will explore more fully how both the UN Convention and the Sustainable Development Goals can be harnessed as international protocols of 'best practice' to build thinking around children's issues, and the areas in which Epworth may strive to adopt a leadership position when it comes to children and investment.

1 Collaborative study University of Nottingham Rights Lab and ECPAT UK www.ecpat.otg.uk
2 As of July 2022 www.unicef.org.uk

COPART: “TURNING JUNK INTO GOLD”

Copart, a US listed stock, is a leading global provider of online vehicle auctions. It has been a conviction holding within our Global Equities Fund since June 2023.

It generates an impressive return on capital for its shareholders, aided by advantages of a network effect. The vast majority (~80%) of vehicle sales are on behalf of insurance companies and in turn, the sheer scale of Copart’s auctions attracts many potential buyers, not just in local markets, but around the world.

Copart are seeing structural demand for their services as the total loss frequency, the percentage of cars that insurance companies decide to treat as salvage rather than send off for repair, is increasing due to:

> More complexity in new cars, meaning accidents are more costly to repair
> The growth in international demand for these same vehicles, which makes “totalling” a vehicle a more attractive proposition

Copart makes investments to expand its footprint of processing and recycling yards globally. However as their bidding platform is scalable, and with the underpin of that structural demand and their network effect advantage, they are able to generate healthy profits on the capital they are investing.

Enabling a reduction in carbon emissions and the recycling of vehicles

When Copart was first established 40 years ago, around 1 in every 25 cars in a US traffic accident was rendered a total loss, with many cars auctioned off purely for their metal content. Today, this figure is around 1 in 5 cars. Copart have helped to enable the global re-use and recycling of vehicles, parts, and raw materials, so that today many of the cars they process and remarket are subsequently restored to driveable condition.

The United Kingdom, unlike the US, has not historically made use of recycled car parts. Copart, following an acquisition of a UK Salvage & Recycling business in 2022, are working with their insurance company

clients, who have a commitment into developing a domestic market for "green parts".

Helping Communities

Over 30% of Copart's FY23 sales of US vehicles ended up overseas. With authorised representatives located throughout Latin America, the Caribbean, West Africa, Eastern Europe and Asia, many are purchased and restored to driveable condition, for use in developing countries. With new vehicles out of reach for many consumers, these vehicles can offer affordable transportation.

2,000+ acres reserved to respond to CAT events

500 trucks & 300 front end loaders capable of moving thousands of impacted vehicles

In the United States, they operate a Catastrophe Response team (CAT), comprising personnel, technology, trucks, and loaders. In the wake of major weather events, such as Hurricane Ian that hit Florida in 2022, they can utilise CAT mega yards to store and process tens of thousands of vehicles damaged by such events, enabling faster resolution of insurance claims for policyholders.

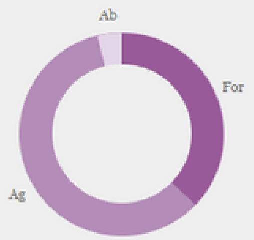
Helping Motorist Insurance Premiums

The benefits of scale that Copart can draw upon enables them to increase average selling prices for their clients, such as insurance companies. This in turn enables the Insurance companies to generate better returns on salvage, which can help mitigate the impact on their loss ratios, which ultimately feeds into motor insurance premiums.

EPWORTH VOTING SUMMARY Q4 2024

Remuneration reports

For	10
Against	16
Abstain	1

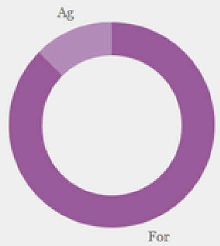


Executive pay scheme

For	4
Against	0
Abstain	0

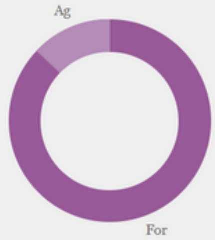
Auditors appointment

For	7
Against	1
Abstain	0



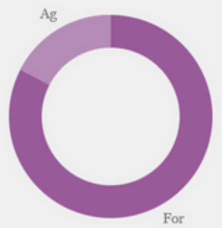
Other

For	54
Against	8
Abstain	0



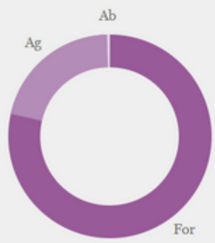
Directors

For	90
Against	19
Abstain	0



Total votes

For	165
Against	44
Abstain	1
Total	210
Meetings	20



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.

IMPORTANT INFORMATION

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www.epworthim.com
0207 496 3636
enquiries@epworthim.com

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