Epworth
Investing Faithfully

QUARTERLY REVIEW | Q1 2025

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 first quarter of 2025 has ushered in significant political changes that have upturned the investment landscape. After his inauguration in January, US President Trump defied Epworth's expectations that he would follow the blueprint of his first term and primarily focus on supporting businesses through deregulation & tax cuts, and only use tariff threats as a negotiation tool. Instead, he has gone far further with tariff threats and disruption, apparently driven by a deep-seated political desire to return industry and consumption back to the US and away from foreign goods, even at the expense of US growth and inflation stability (it is generally much more expensive for businesses to produce such products in the US).

> Trump's 'liberation day' tariff announcement spooked investors with the scale of potential economic harm that could be caused if they were not rolled back.
>
> Matt Jones - Head of Asset Allocation

Economists frantically revised their forecasts in the face of such unprecedented political disruption to an economy that was otherwise continuing to perform well, and US assets sold off after performing well in 2024. We previously flagged in our 2025 outlook that Trump is 'famously unpredictable', which unfortunately proved to be accurate.

Europe saw a political bombshell of its own, though with more positive repercussions for local investors. German elections saw a change of leadership that, combined with the more serious threats from Trump to ditch military support for Europe, saw arguably the most dramatic change of political direction in Germany since unification. Whilst most Western economies have borrowed more and more since the financial crisis and through the pandemic to sustain standards of living, Germany has been an outlier with its long-held reputation for financial prudence.

However, in the face of continued dire economic performance and threats to the global geopolitical order, German politicians agreed a huge change to the constitution to allow more borrowing and fund massive investment in infrastructure and military capability. This drove European assets to outperform their US counterparts by the largest margin in decades, after years of underperformance.


China saw a renaissance of its own, driven by emergence of locally developed artificial intelligence models that surprised markets by their performance and efficiency, despite efforts by the US to prevent such technological progress through restrictions on technology exports. It remains to be seen if this will proliferate into more sustained momentum in the broader Chinese economy that continues to face structural headwinds.

After the end of the quarter, Trump's "liberation day" tariff announcement spooked investors with the scale of potential economic harm that could be caused if they were not rolled back. This triggered significant market volatility, our thoughts about which you can find on our website: Tariffs-Tantrums-and-Trade.pdf


INVESTMENT OUTLOOK

Whilst Trump continues to govern erratically, nothing appears certain for investors. Epworth has reduced equity exposure somewhat in light of the growing recession risks we see, whilst also seeking opportunities to add to assets we think have been unfairly dumped by the market. We believe there are signs of indiscriminate selling in parts of the market that is presenting more attractive opportunities for long term investors, though undoubtedly the long-term political outlook has also changed.

This is giving rise to greater trading opportunities than has been the case since the pandemic, with Epworth selling into rallies and buying back on dips. European and UK equities have become much cheaper than their US counterparts for valid reasons over the last 10 years or so, but we think that events so far this year provide the ingredients to reduce this gap. Epworth has therefore been net sellers of US assets, both bonds and equities, and net buyers of European and UK assets this year - we think the latter better prices the current growth challenges than the former at current levels.

Gold haven status has grown further in light of Trump's serious threats to US economic superiority and stability, whilst holding extra cash provides ammunition to take advantage if markets weaken to more distressed levels. Infrastructure and UK property assets could also finally be finding a bottom if Europe is serious about levelling up its own investment, and as investor seek more certainty of cash flow. Bonds have performed relatively well as recession fears have risen, but we believe inflation is the real cost of tariffs and therefore have reduced bond allocations, particularly to corporate issuance and US treasuries where we see the greatest risks.

SAFEGUARDING CHILDREN: INVESTOR TOOLS FOR EMPOWERING ENGAGEMENT

In the first article in this series 'Children: The Forgotten Constituency in Investment Stewardship', we introduced the theme of children being a neglected, indeed, absent, constituent for investors when developing responsible investment engagement strategies. We observed that children have been broadly overlooked by investors and fund managers, despite their being a target audience for global business. Children, as we noted, have no agency, little lobbying power, and in the main only secondary financial power via an adult parent or guardian.

In succeeding articles in this series, we intend to take a 'deep dive' into some specific areas of concern in which children are impacted, and where listed corporations are an acknowledged and material agent in that impact. Epworth Investment Management wants to explore the significance of these impacts so as to inform a conversation on behalf of clients around children.

In framing the debate, investors can draw upon multiple 'tools' that contextualise what it means for children to flourish and develop in the modern world; this article considers some of these and how they enable investors to enrich their own thinking alongside these recognised standards.

The Sustainable Development Goals[1] (SDGs), an ambitious agenda for change adopted by all United Nations member states in 2015, is perhaps the grandest and most significant of these tools. The 17 SDGs are successor Goals to the earlier Millennium Goals adopted in 2000 to eradicate extreme poverty. The SDGs amount to a 'blueprint for peace and prosperity for people and the planet'. Applicable to all countries - developed and developing - the 17 Goals, supported by 169 underlying targets, are concerned with such things as zero poverty, good health and wellbeing, quality education, clean water and sanitation, climate action, life below water and on land. This ambitious agenda sets a deadline of 2030 for the 17 Goals to be broadly achieved. A caveat: the SDGs were not designed specifically for business or investors. They are an agenda for State actors and other agencies working in the fields articulated by the Goals. Nevertheless, many businesses have adopted specific Goals as part of their approach to sustainability or corporate social responsibility, and disclose where they 'contribute' towards making the Goals happen. The same is true for investors. The SDGs provide a robust template for potential engagement, and an acknowledgement that companies, in influencing outcomes, can contribute towards the Goals' achievement.


Many of the underlying targets are specifically aimed at children and their wellbeing. For instance, Goal 2 'Zero Hunger', addresses children in target 2.1 and 2.2 to end hunger and ensure safe, nutritious and sufficient food all year round, and to end all forms of malnutrition, including stunting and wasting in children under five years of age. This speaks to the role food manufacturers can play in fortifying and re-engineering products and formulas with life-saving vitamins that may otherwise be unavailable through a normal diet. Goal 3 'Good Health & Wellbeing' addresses the needs of children across several targets. For instance, ending preventable deaths in new-borns and children under five in line with international norms. Target 3.4 looks to promote positive mental health and wellbeing. These and other targets speak to the role a range of companies are able to play in developing efficacy around maternal care in the healthcare sector or in mental wellbeing advocacy.

Perhaps the Goal targeted mostly on children and young people is Goal 4 'Quality Education'. Supported by 10 targets, the Goal is about access to free and equitable education, building skills for the world of work, and eliminating discriminatory factors that prejudice outcomes for girls. This speaks to companies working in education provision, open access in research, and particularly, supporting corporate responsibility initiatives in the education arena.

One further Goal worth highlighting is 16, a more general governance Goal around strong institutions, in which target 16.2 ambitiously commits to end abuse, exploitation, trafficking and all forms of violence and torture against children. This speaks to an issue we will explore in a later article; the responsible management of extended supply chains in husbandry and manufacturing.

Whilst the SDGs are a gold-standard in ambition and reach, they are not the only tools investors have at their disposal. Over the past two decades there has been significant progress in the ability to benchmark business behaviour and commitments across a suite of Indices built around rigorous data assessment. Two are the Access to Medicines Index and Access to Nutrition Index[2].


The former presents encouraging case studies of companies working in developing world communicable diseases that affect millions of children; for instance, Respiratory Syncytial Virus that affects 100,000 children globally, soil-transmitted helminths that affect 900 million children, and pneumococcal disease, the leading cause of death in children under five[3]. The Access to Nutrition Index benchmarks companies against the twin issues of malnutrition and obesity by looking at product health, affordable nutrition and marketing to children. Finally, the World Benchmarking Alliance's[4] Benchmark on Digital Inclusion has a section on keeping children safe and company performance on online safety; a very pressing and timely issue.

Investors need to be taking children's issues seriously and comprehensively as part of their responsible investment engagement strategies. As we have seen, tools exist to help and inform investors in framing engagement with business and focusing on the most pertinent issues. In the next three articles we will explore some of these issues in more depth.

March 2025

1 All information THE 17 GOALS | Sustainable Development
2 Access to Medicines Index www.accesstomedicinefoundation.org Access to Nutrition Index www.accesstonutrition.org
3 250113_2024-access-to-medicine-index_final (1).pdf
4 World Benchmarking Alliance Digital Inclusion Benchmark www.worldbenchmarkingalliance.org

GLP-1 DRUGS: A DOUBLE-EDGED SWORD IN THE FIGHT AGAINST OBESITY

Epworth's research within the pharmaceutical sector has recently focused on the introduction of 'GLP-1' drugs as a form of weight management.

GLP-1 receptor agonists (drugs which mimic a hormone which regulates blood sugar and appetite) have emerged as a promising solution for weight loss alongside their established use within diabetes management. These drugs, including popular brands like Ozempic and Wegovy, have garnered considerable attention for their effectiveness in reducing body weight and improving metabolic health. However, as we at Epworth are aware, any medical intervention usually comes with both advantages and drawbacks.

The Bright Side

One of the most significant advantages of GLP-1 drugs is their potential to alleviate the burden on healthcare systems. As obesity rates continue to rise globally, with more than 2.5bn adults classed as 'overweight' and double the amount of people classed as 'obese' since 1990, these medications offer a way to combat the epidemic and its associated health complications. By promoting substantial weight loss through the regulation and suppression of appetite, GLP-1 agonists can help prevent or manage obesity-related illnesses such as type 2 diabetes, cardiovascular disease, and certain cancers. Moreover, the weight loss achieved through GLP-1 drugs can lead to increased mobility for individuals struggling with obesity. This improved physical function often translates to more active lifestyles, which can have a positive impact on mental health and overall well-being. Many patients report feeling more energetic and confident after a course of treatment with these medications.

The various benefits of these treatments are evident, and represent a cause that Epworth is keen to further encourage through investment in companies producing these treatments, such as Novo Nordisk and Eli Lilly. Epworth believes these investments are firmly aligned with our ethical investment pillars, specifically 'Health & Wellbeing'.

The Darker Side

Despite the multitude of benefits, GLP-1 drugs are not without controversy. One of the most pressing concerns is the issue of accessibility and cost. These medications are often expensive, making them out of reach for many lower-income households. Ironically, these are often the same communities that face higher rates of obesity due to limited access to healthy food options and reliance on cheaper, processed foods. This disparity in access to treatment could exacerbate existing health inequalities. For example, in the US, the National Healthcare Quality and Disparities Report found that almost 1/3 of low-income households lack health insurance, compared to less than 6% of higher-income households, and these lower income households were more likely to experience chronic illnesses and overall poor health.

This is another issue we at Epworth actively seek to address and do so through our investment in companies which are producing medical equipment, creating efficiencies and providing capital to further expand healthcare capabilities and accessibility globally.

An additional ethical concern is the potential overreliance on medication to solve health problems. Critics argue that the widespread use of GLP-1 drugs might discourage people from adopting healthier lifestyles, instead promoting a "quick fix" mentality. This is particularly damaging as new research being conducted aims to highlight that GLP-1 drugs can also be used to treat substance addiction, the logic being that the same mechanisms that repress appetite also repress cravings for harmful substances. This approach may not address the root causes of obesity or addiction and could lead to long-term dependence on medication.

The growing popularity of GLP-1 drugs for weight loss has also led to supply shortages, affecting patients who rely on these medications for diabetes management. This off-label use raises questions about prioritizing cosmetic weight loss over essential medical treatments.

Lastly, the rise of these drugs may have unintended social consequences. The recent progress made in body positivity movements could be undermined as more people pursue a "skinny" ideal through medication. This shift could potentially reinforce harmful beauty standards and stigmatize those who choose not to or cannot use these drugs.

Conclusion

GLP-1 drugs represent a significant advancement in the treatment of obesity and its related health issues. While they offer hope for many struggling with weight management and can potentially reduce the strain on healthcare systems, they also raise important ethical questions. Epworth is no stranger to the delicate balance of harnessing the benefits of innovation whilst confronting drawbacks; striving, as always, to prevent the creation of any form of inequality or stigma within society.

CRANSWICK CASE STUDY

Epworth’s investment team strives to champion companies making a real difference to society, whilst also offering an attractive investment case. Exemplifying that effort is Epworth’s holding in Cranswick, a conviction holding in the UK equity market. Cranswick is a leading vertically integrated UK food producer, specialising in pork and poultry supplies to many high street grocers, such as Tesco and Morrisons. Cranswick has a history of excellence when it comes to sustainability and responsibility within their sector.

Carbon Management

A recent example of their environmental work is the launch of an innovative ‘Carbon Inset Pilot Scheme’, to enhance their existing regenerative agriculture initiatives and contribute to their goal of achieving Net Zero by 2040. This forward-thinking approach demonstrates Cranswick's commitment and sets a new standard for carbon reduction within the agricultural industry; further aligning them with Epworth’s ‘Earth and Ecosystem’ Ethical Investment Pillar.

The three-year project, conducted in partnership with Hutchinson's and Agri Sound, aims to investigate and improve carbon sequestration in soils while increasing biodiversity across Cranswick's farms. This initiative focuses on integrating nature-based solutions directly within the company's supply chain, a process known as carbon in-setting.

The key aspects of Cranswick's scheme are the use of advanced technology to measure and track carbon sequestration across 250 hectares of Cranswick farms in the East of England. The project also involves planting sections of land with a mix of wildflowers, grasses, and legumes. This diverse planting strategy promotes biodiversity, creating a more resilient and ecologically balanced farming ecosystem.

Cranswick is also collaborating with Agri-Sound to develop advanced bioacoustics listening technology. This innovative approach will enable more accurate detection of various species, providing a clearer picture of biodiversity levels and activity on Cranswick farms.

Advantages

The Scheme offers several advantages over traditional carbon offsetting method used more widely in the industry. By focusing on improvements within their own supply chain, Cranswick can directly reduce their emissions and create long-term sustainability benefits. This approach also allows for greater control and verification of carbon reduction efforts, addressing concerns often associated with external offsetting projects. Furthermore, the insetting approach provides additional benefits to farmers and local communities. As the scheme is trialled across multiple sites, many of which are independently owned, it offers an additional income stream for farmers who are financially incentivized to sequester carbon and increase biodiversity on their land. This economic boost can help support rural communities and encourage wider adoption of sustainable farming practices.

The project's potential impact extends beyond Cranswick's immediate operations. By developing and sharing the blueprint for their Carbon Inset Scheme within the wider agri-food industry, Cranswick aims to set a new standard for sustainability adoption. This knowledge-sharing approach can accelerate the transition to more sustainable practices across the entire agricultural sector.

Conclusion

As the agricultural industry faces increasing pressure to reduce its environmental footprint, initiatives like Cranswick's Carbon Inset Pilot Scheme offer a promising path forward and exemplify the ability to create meaningful societal benefit. By prioritizing nature-based solutions and leveraging cutting-edge technology, Cranswick is not only working towards its own Net Zero goals but also paving the way for a more sustainable and resilient future for the entire agri-food sector; something Epworth is keen to promote and encourage through our active investment and engagement.

AI: FRIEND OR FOE

Equity markets have delivered strong returns over the past two years, driven by a combination of traditional factors, including stronger than anticipated economic growth, the beginning of a rate-cutting cycle, and greater political stability following major elections. Adding to these fundamentals, the rapid advancements in artificial intelligence (AI) has emerged as a significant theme in markets fuelling optimism and contributing to strong performance in sectors linked to its growth.

AI was thrust into the spotlight on November 30, 2022, with the release of ChatGPT, OpenAI's groundbreaking conversational model. This innovation marked a pivotal moment, transforming AI from a niche tool into a mainstream marvel capable of human-like interactions. From there, a rapid wave of innovation and adoption ensued. Companies around the world quickly recognised the potential of AI to revolutionise workflows, customer service, content creation, and decision-making processes. The competitive advantage AI promised led to an almost obsessive drive for integration, sparking an arms race among businesses to harness its capabilities.

AI tools have started streamlining operations, predicting trends, and enhancing creativity at scales previously unimaginable. Organisations that hesitated risked falling behind, further fuelling the obsession with incorporating AI into every facet of their operations. This frenzy not only accelerated advancements in AI technology but also raised pressing ethical questions about its deployment, governance, and societal impact.

A major ethical concern revolves around how these models are trained—often relying on massive amounts of data, some of which may be used without proper authorisation. The potential for AI systems to reproduce copyrighted material or derive insights from unlawfully obtained data raises questions about transparency, accountability, and respect for intellectual property. Currently, what exists as a legal grey area is more clearly defined from an ethical viewpoint: you shouldn't be able to freely use someone else's content without permission.

Universal Music Group (UMG), one of Epworth's portfolio companies, is at the forefront of addressing this issue within the music industry. UMG is a leading global music company with a diverse portfolio spanning recorded music, music publishing, and merchandising. The company owns rights to over 3.2 million recordings and nearly 4.5 million music publishing titles. Essentially, Universal Music discovers, develops, and promotes the world's most influential artists and, in doing so, earns a share of royalty payments from the musical content they create. UMG represents a vast array of global superstars across various genres and stands at the centre of a thriving music industry as it continues its transition towards streaming and subscription models.

The music industry has shown remarkable resilience and a proven ability to adapt as it transitioned from an era dominated by CDs and radio to a digital-first landscape. The crisis of widespread piracy in the early 2000s devastated the music industry, threatening the livelihood of artists and labels. In this time of crisis, innovation came to the rescue with the introduction of streaming services and subscription models which offered a lifeline, transforming music consumption by monetising access rather than ownership. These platforms curbed piracy, revived revenues, and reshaped the industry's structure, allowing artists to reach global audiences like never before. UMG, through their partnerships with the likes of Spotify played a pivotal role in driving this transformation and continue to promote the best interests of all their artists along with the wider music community.

Fast forward to today, and the music industry faces a new challenge: artificial intelligence. Central to the issue is the unauthorised use of intellectual property to train AI systems capable of generating content that mimics or replicates human creativity. Universal Music Group (UMG) has emerged as a leading advocate for creators, championing what it calls an "artist-centric approach." This initiative promotes industry-wide adoption of principles that prioritise the rights of artists and music owners, emphasising the importance of safeguarding not only the music but also the personal and creative identities of the artists who make it, ensuring their contributions remain genuine and protected. The issue is not AI-created music itself but rather the unlawful use of a person's creative identity and property to make a profit.

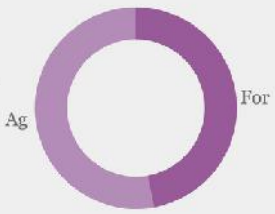
The music industry is not the only one grappling with these issues. In the visual arts, AI-generated content has sparked debates about originality, with algorithms replicating the distinctive styles of painters and graphic designers without their consent. Similarly, in literature, AI tools have been used to produce text that mimics the voices of established authors, raising questions about intellectual property and authenticity. Even in fashion, AI systems are replicating iconic designs, challenging traditional notions of copyright.

This issue serves as a reminder that the ethical landscape will continue to evolve alongside innovation, presenting fresh challenges for investors. So, while new issues will continue to arise, our approach at Epworth remains grounded by our ethical pillars. At the core of this issue, it conflicts with our view of fairness, responsibility and transparency. As responsible investors, we will continue to monitor and engage with our portfolio companies to ensure they act ethically, equitably, and responsibly as they incorporate this technology into their businesses.

EPWORTH VOTING SUMMARY Q1 2025

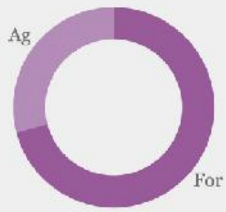
Remuneration reports

For	16
Against	18
Abstain	0



Executive pay scheme

For	22
Against	9
Abstain	0

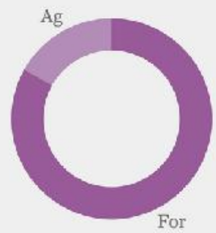


Auditors appointment

For	21
Against	0
Abstain	0

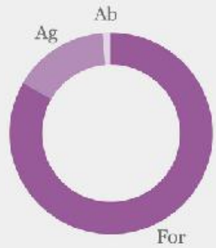
Other

For	133
Against	27
Abstain	0



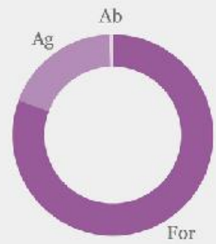
Directors

For	190
Against	35
Abstain	3



Total votes

For	382
Against	89
Abstain	3
Total	474
Meetings	26



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IMPORTANT INFORMATION

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