



STEWARDSHIP CODE REPORT 2022

ETHICS AT THE HEART

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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 (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, end modern slavery, improve nutritional offerings, promote wellbeing, 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. Alongside our external framework for ethics, we are also committed to exploring meaningful net zero initiatives and have taken significant steps to strengthen our own climate reporting. 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.

£917 MILLION
FUNDS UNDER MANAGEMENT

25+ YEARS
ESG INTEGRATION

200+
CLIENTS SERVED

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 Central Finance Board of the Methodist Church (“CFB”), and its wholly owned subsidiary Epworth Investment Management (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.

APPLYING CHRISTIAN VALUES TO INVESTMENTS

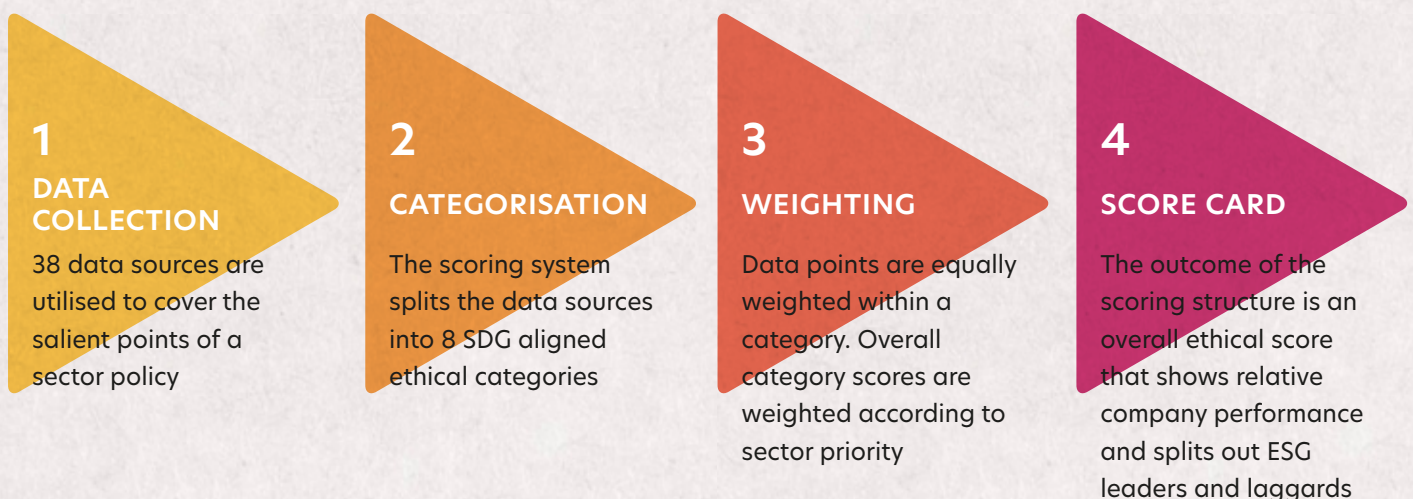
We have a strong belief that the Christian values we apply to our investments, and the pressure we apply to companies to act in a responsible way, have helped to improve corporate behaviour across a range of industries and geographies. Our combination of Christian ethics and pursuit of good investment 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 47 years 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/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. Our asset allocation committee oversees the construction of client portfolios that reflect our Christian ethical approach, across both internally and externally managed funds, whilst our in-house research team carry out in-depth research on individual companies; aiming to identify companies that are good stewards across all their areas of activity.

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.

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 2021 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 2022 Methodist Conference.

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

Our detailed position papers and policy statements are published on our two websites

www.cfbmethodistchurch.org.uk/ethics

www.epworthinvestment.co.uk/ethical-investment

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 Epworth 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 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 2022 JACEI membership represented expertise from: the charity finance sector, telecoms sector, health and safety, mining sector, climate action, theological backgrounds, the civil service, mental health, government and politics, NGOs, social care, accounting, legal services, armaments, and conflict zones.

After a successful review and recruiting cycle of JACEI membership, we are proud to maintain strategic expertise from diverse genders, ethnicities, geographies, and socioeconomic backgrounds. JACEI was also able to recruit expertise from the banking sector to better enable our engagement with banks.

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 Sustainalytics, Clarity AI, Bloomberg, and Transition Pathway Initiative.

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.

**60% FEMALE
EXECUTIVE COMMITTEE
REPRESENTATION**



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 ► SEGREGATION OF MANAGER DUTIES

The major conflict of interest that continues in this reporting period, requiring regular disclosure, concerns the Methodist Church pension schemes. Epworth is the investment manager to these schemes; and the CFB is a major employer member of one of the schemes. Further, a senior member of staff has been a Trustee Director of one of the schemes. After one of the valuation cycles, the employers sought assurance as to the risk profile of the scheme to mitigate future liabilities. Conversely, the CFB as investment manager desired a "risk on" approach to maximise assets under management. This conflict has been managed by a segregation of duties between senior management. The CEO manages the relationship with the scheme as an employer, whereas the CIO manages the client relationship. The Chair of the CFB and Epworth sits above these relationships, ensuring impartiality in all conversations.

CASE STUDY ► MAINTAINING AN ALLOCATION POLICY

The CFB/Epworth's order execution policy, which covers all transactions and financial instruments executed on behalf of its clients, sets out the procedures in place to act in accordance with the best interests of our clients. An area where a conflict-of-interest potential arises is in the placing of orders for multiple clients and the subsequent fair allocation of trades, although this is a very rare instance within our organisation. In order to minimise this risk, we maintain an allocation policy, which stipulates that all deals must be allocated on a pro rata basis prior to execution.

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 equity portfolios involves analysing potential credit risk, both from a top-down macroeconomic perspective during asset allocation meetings, to an individual company level when undertaking research. As inflation and interest rates have picked up over the past year, this has meant we have been confident in the financials of our companies in terms of their low indebtedness as we head into an era of potentially sticky inflation and higher rates.

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 an increasing market-wide risk. Therefore, more emphasis than ever in our research and analysis is placed upon identifying where companies are falling short of where progress needs to be.

We have ethical exclusions in most portfolios, and we monitor those to ensure we understand any specific risks they bring. In the meantime, we are considering moving toward an ethical inclusion

model, a list of ethically investable companies, which would decrease our likelihood of investing in and being exposed to ethical risks. 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.

2022 saw the transition from a COVID-19 environment to a more consistent hybrid working environment at the CFB/Epworth, and we continued to work effectively and offer our clients a full range of investment services.

The health and safety of our staff has continued to be a key area of focus over the past year, supporting employees and ensuring sufficient cover in times when COVID-19 and flu have been prevalent. We continue to supply office furniture to all who required it to ensure that posture and other working conditions are appropriate in the work from home environment.

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.

CASE STUDY ► RUSSIAN INVESTMENTS

The CFB/Epworth maintains an eligible markets list, which is updated every quarter. Use and analysis of multiple indicators and information sources, as well as the rules around our funds, feed into the decision of whether a market is eligible to invest in. This process meant that Russian markets were already ineligible when it invaded Ukraine. And for both fiduciary and ethical reasons, the CFB/Epworth did not believe that Russian securities should form any part of clients' investment portfolios. To safeguard against further risks, assets already held were assessed for Russian exposure, with some minor indirect exposure eliminated swiftly. Epworth also issued a statement affirming its support for all proposed and existing measures to sanction Russia and exclude it from the global financial system. We also called upon all colleagues in the financial services industry, especially those from major financial institutions that serve the Russian state, Russian companies, or Russian oligarchs, to immediately withdraw their service provision.

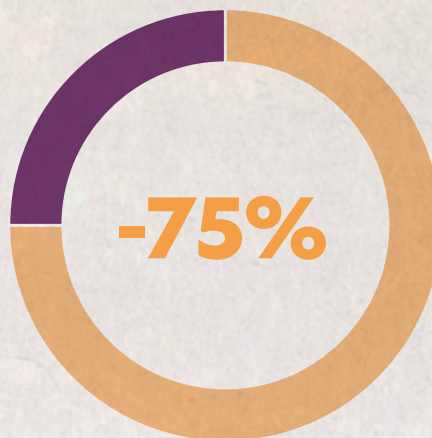


Cyber risk is a wide-ranging term which incorporates the risk of financial loss, disruption, or damage to the reputation of an organisation from some sort of failure of its information technology systems. It includes malicious attacks designed to steal, disable, destroy, or hold to ransom data from its 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 2022. 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.

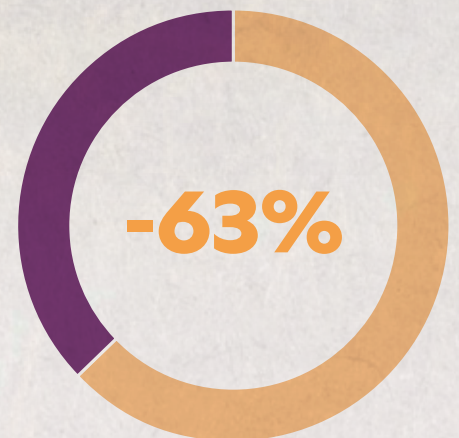
FUND CARBON INTENSITY

The Epworth Investment Funds are up to 75% less carbon intensive than their benchmarks

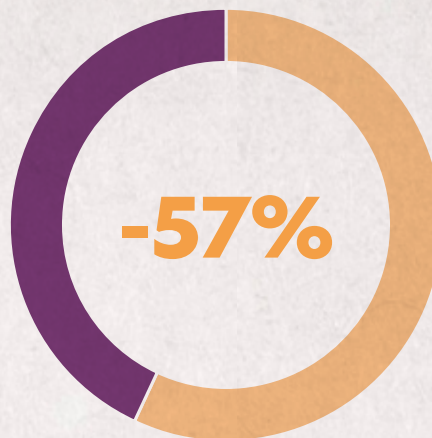
EPWORTH CLIMATE STEWARDSHIP FUND



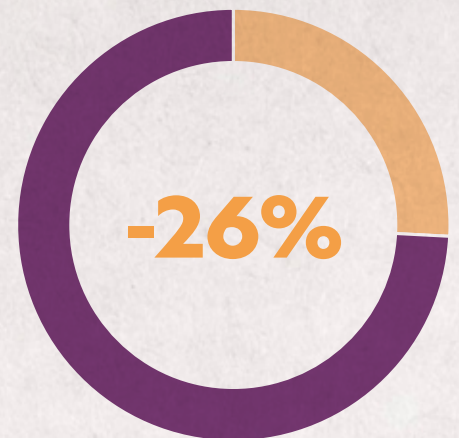
EPWORTH GLOBAL EQUITY FUND



EPWORTH CORPORATE BOND FUND



EPWORTH UK EQUITY FUND



Fund benchmarks

Epworth Climate Stewardship Fund
FTSE All Share Index

Epworth Global Equity Fund
FTSE All World (£) Index

Epworth Corporate Bond Fund
iBoxx Corporate Bond Index

Epworth UK Equity Fund
FTSE All Share Index

As at 31 December 2022

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 meetings 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 four 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 ► DIVESTMENT FROM OIL AND GAS

The CFB and Epworth sold their remaining company holdings in the oil and gas sector, including Shell in reporting year 2021. This was after concluding those holdings were not aligned or close to being aligned with the Paris Accord, to limit global warming to well below 2 degrees and aiming for 1.5 degrees.

The CFB/Epworth continues to engage with and monitor development in the oil and gas sector, largely through shareholder coalitions, with a goal to encouraging improvements in governance, capital expenditure plans, emissions, and climate-linked remuneration targets.

However, improvements remain short of those required. Indeed, a recent restructuring announcement at Shell has in our view indicated a scaling back in the importance of renewable investments to the group and reinforces our conviction in our divestment decision.

Following our experience of assessing the oil and gas sector, JACEI has begun its work focusing on other high emitting sectors such as construction and mining, to develop a more robust and dynamic cross sector climate emergency policy that better responds to the initiatives outlined at COP26.



JACEI HOLDS THE CFB/
EPWORTH TO ACCOUNT
AND RECOMMENDS
POLICY

QUARTERLY REPORTS
ALLOW CLIENTS TO
SCRUTINISE ETHICAL
PERFORMANCE

CASE STUDY ► ELIMINATING RUSSIAN ETF EXPOSURE

The invasion of Ukraine is a shocking and brutal action by the Russian government. Epworth, in solidarity with the Ukrainian people, took an uncompromising approach to its exposure to Russian assets.

The lack of resource exposure within the portfolios removed us from some of the more obvious exposures. However, we sought clarification from several companies in other sectors as to their strategy regarding ongoing business exposure to Russia. We also reviewed our holdings in two iShares emerging market ETFs that owned a number of Russian listed securities at the outset of the Russian invasion of Ukraine. We were reassured when iShares announced that it was suspending the purchase of Russian securities soon after the invasion, followed by prompt news that Russian securities would begin to be removed from the ETFs.



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 gained retail permissions in August 2022 from the FCA, 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 their 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 in-house 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 consequences.

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. 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 recently carried out 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 are also now able to access a wider universe of potential asset classes and investments to utilise in the construction of our client portfolios, giving us the potential to provide a more diversified approach and enabling us to better meet our clients' investment goals and objectives.

The "platforming" of Epworth's portfolio clients has increased 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.

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 questions provide exposure too, 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 ► RECOGNISING THE POWER OF OUR CLIENT'S VOICE

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 and the voice of protest of our clients. For the last 47 years the CFB, and more recently Epworth, have believed that all strategic and investment decisions must be consistent with our Christian faith, and should be informed by the unique diversity of our client and stakeholder base..

What makes CFB/Epworth unique is how we inform our ethical priorities. Our approach recognises the power of our client's voice in helping set the ethical priorities of the firm and seeks, on a regular basis, to gather the ethical insights and priorities of our clients and stakeholders. Through our client management team, we produce a survey where the recipients can list the top ethical issues that concern their respective organisation. The results of these surveys are compiled and, through committee and consultation, collated into common ethical themes. These are then brought to our Joint Advisory Committee on the Ethics of Investment (JACEI) where a final priority order is set in accordance with existing policy and Christian teaching.

In conjunction with our portfolio exposure data, the priority list provided by JACEI is used to produce a Priority Matrix. The vertical axis indicates any issues of importance to clients and the horizontal axis indicated an issues sector exposure within our portfolio. The matrix provides us a clear indicator of what is most important to clients as well as where we feel, through our exposure, we have the greatest impact potential for engagement. As the exercise is repeated, the matrix develops alongside changes to client priority and portfolio exposure.

These priorities are explored in more detail through the annual review meetings we hold with our clients. These meetings serve as a forum to not only demonstrate how the survey responses impact the work we do, but also to provide us with the opportunity to gain a much deeper insight into our clients' specific ethical concerns. We are able to use these conversations to draw on each client's own experiences and involvement in many of the ethical issues we seek to address. This unique approach gives clients the ability to feed directly and comprehensively into the ethical priority-setting process of the CFB/Epworth and marks a major step forward in ethical investing, where client consultation is paramount.

Through the diversity of client insights, CFB/Epworth can more ably identify emerging issues, offer a targeted impact approach to engagement, and better satisfy the ethical goals of the churches and charities we represent.

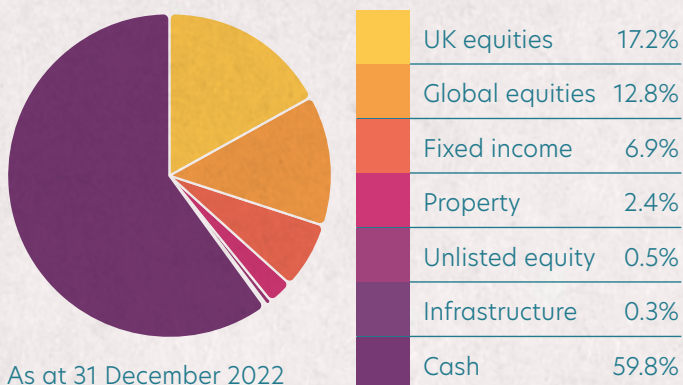


CASE STUDY ► IDENTIFYING POOLED FUNDS

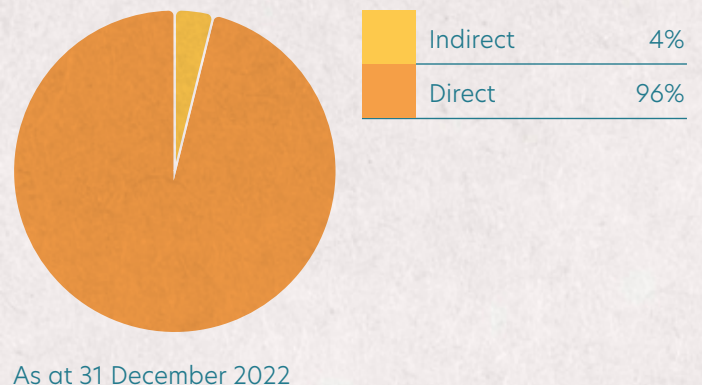
Epworth conducted a process to identify suitable pooled funds to provide access to the UK corporate bond market. This process included the following key steps:

- ▲ From the universe of available pooled funds, a shortlist of funds was created that met the following basic criteria:
 - ▲ accessible to client portfolios and Epworth's funds
 - ▲ provided the desired investment exposure to the UK corporate bond market
 - ▲ applied an explicit ethical overlay
- ▲ From this shortlist, three funds were selected for further work, based on key investment criteria such as cost and performance track record, and an initial assessment of the depth of ethical overlay. At this stage, these funds were screened against Epworth's tolerance levels to ensure broad compatibility with Epworth's stewardship principles. In this case, the three selected funds passed this initial screening. Two of the funds were more traditional corporate bond funds covering the broader market whilst applying significant ethical tilts, whilst the third fund was more thematic in nature, focused particularly on the social bond subset of the market.
- ▲ Due diligence was then conducted on all three funds, assessing both the investment and ethical merits of each fund. This included in depth analysis of the following key areas:
 - ▲ Approach to portfolio construction, including duration & credit strategies.
 - ▲ The regulatory structure and jurisdiction of the Fund
 - ▲ Risk management processes; including covering portfolio management, fund diversity, trading liquidity risks, use of derivatives, any foreign holdings or currency exposures and whether the portfolio engaged in use of leverage or stock lending.
 - ▲ The depth of stewardship activities within the fund, such as the exposure to positive investments, approach to exclusions, engagement process and case study reporting. Meetings were held with fund managers to critique each approach, including gauging the extent of their involvement in the stewardship aspects of the fund, versus how much was delegated to separate RI departments.
- ▲ On completion of this analysis, conclusions were reached on suitable client allocations and presented to the asset allocation committee for discussion. This included balancing the different investment and ethical characteristics of the thematic vs traditional funds. The committee critiqued the analysis undertaken and conclusions reached, including requesting areas of further analysis, before eventually agreeing suitable allocations to adopt between two of the shortlisted funds that it was felt would provide the best balance of exposures and factors for Epworth clients.

CFB/EPWORTH AUM BREAKDOWN



EPWORTH FUNDS BREAKDOWN



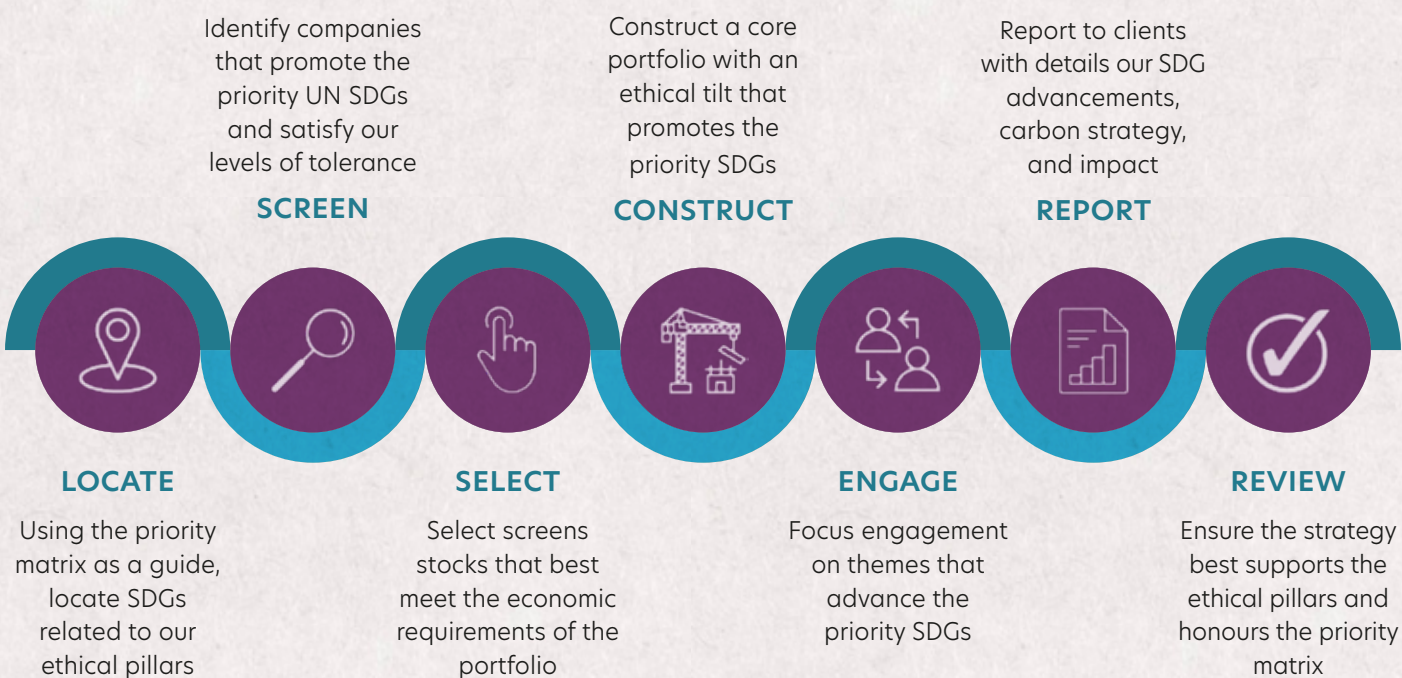
STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

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.

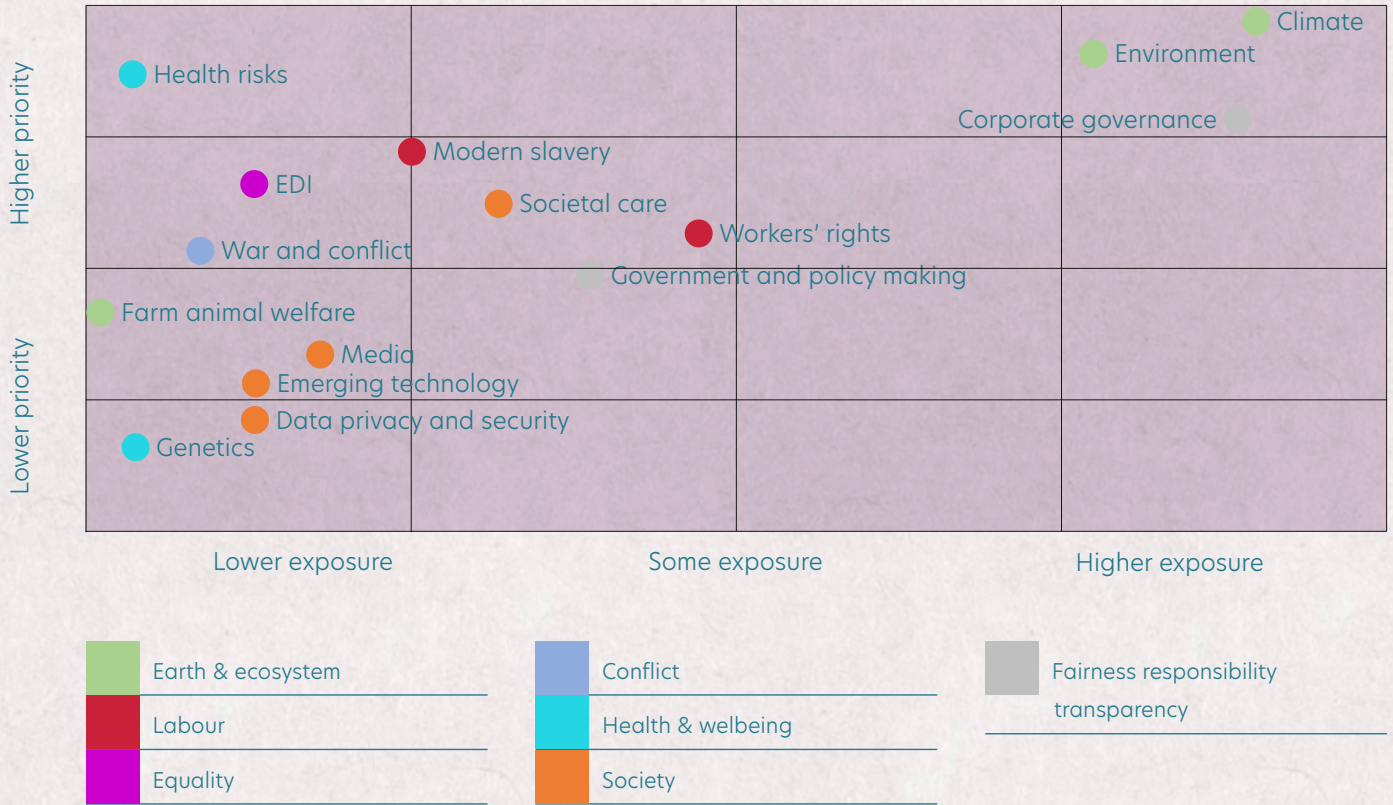
ESG INTEGRATION PROCESS



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 2022

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 Goals. 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.

The investment team also holds an ethics meeting at least once a month to discuss progress on key action points and engagement activities with corporates on ethical issues. The meeting is chaired by the Chief Responsibility Officer, who is responsible for overseeing the ethical investment approach. Minutes and progress reported at each meeting are reviewed by JACEI and ERIM.

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 ► ADDRESSING THE CLIMATE EMERGENCY

While the whole suite of Epworth funds integrate in depth ethical analysis into investment management, the Epworth Climate Stewardship fund has the climate emergency in particular at its core. The fund aims to have a carbon footprint substantially below that of its benchmark, the FTSE All Share Index. In 2022, the fund achieved a carbon footprint that was 75% lower, reflecting the integration of environmental factors into the fund's construction and management.

What does this integration look like? The fund seeks out companies that contribute to the low carbon transition, such as those investing in renewable infrastructure including wind power, solar power, and battery storage. Engagement has also taken place with portfolio companies to encourage action that reduces the risk of climate change. As well as taking positive action, companies that extract or refine fossil fuels, miners, other major greenhouse gas emitting companies such as cement manufacturers and some of those in the supply chains of the above industries, have been excluded. This has removed 32% of the benchmark from the investment universe for the fund, 7% above the amount barred from the index by Epworth's existing UK Equity fund.



Solar and in particular wind generation are key to the UK's hopes of achieving a Net Zero future.

The Epworth Multi-Asset Fund, in addition to investments in Epworth funds such as ECSF, has direct exposure of c.3.4% of the Fund (as at 31 December 2022), in a number of listed infrastructure Trusts targeting onshore and offshore wind farms and Solar Photovoltaic (PV) parks across the UK, as well as Europe.

CASE STUDY ► EPWORTH MULTI-ASSET FUND

The Epworth Multi-Asset Fund is Epworth's flagship active fund offering to clients, providing the simplest, all-in-one solution for charities looking for good returns and a clear ethical impact over a long time horizon.

To construct this portfolio, the following key steps are involved:

- ▲ Identifying the various asset classes available to the fund, including the basic investment characteristics of each, and the accessibility of each asset class to the fund
- ▲ Agreeing suitable allocations between asset classes to achieve the appropriate risk adjusted return for unitholders. This includes:
 - ▲ backward-looking performance simulation analysis of possible allocations, including the return and portfolio volatility observed, and correlations between asset classes
 - ▲ Consideration and discussion of possible future economic and market scenarios, with the asset allocation committee identifying potential risks and opportunities, and agreeing allocations most likely to perform best under the outlook considered most likely by the team, and the key risks to monitor to this outlook.
- ▲ Identifying the best vehicle or vehicles to access each asset class, and provide both the investment and ethical profile most suitable for unitholders. This will vary by asset class, for example:
 - ▲ In equities, Epworth's in house equity funds are deemed most appropriate to provide the majority of exposure, as it allows Epworth's own investment team to have direct oversight and control of security selection in high quality, ethically positive businesses, and to conduct direct engagement activity with those holdings. Holdings in these in-house funds are complemented by small exposures to externally managed vehicles to provide specific additional exposures to key themes, regions or sectors, as deemed appropriate. As the Multi-Asset Fund is a long-term investment fund, equities form a key part of the asset allocation.
 - ▲ For unlisted asset classes, such as the commercial property market, externally managed funds are considered the most appropriate method for accessing this exposure. These funds are identified and selected following Epworth's pooled fund policy and key selection criteria for external funds, which seeks to identify and analyse leading ethical managers in the asset class, to ensure the optimal investment exposure and stewardship is achieved.

A key part of the Multi-Asset Fund construction is to seek positive investments whenever possible. In addition to positive investment themes present in Epworth's equity sub-funds, the Multi-Asset Fund also holds positive investment exposures in other asset classes. A recent addition that falls into this category is SDCL Energy Infrastructure Trust, an investment trust dedicated to improving the energy efficiency of businesses and the economy. This is a vitally important element required to respond to the climate crisis, and to date has been poorly resourced by governments and investment markets. This trust has established itself as a leading player, partnering with organisations to provide them the expertise and equipment needed to reduce their energy use and cost base, something that has become even more important during the current cost of living crisis. This trust helps put unit holder's capital into investments that deliver significant societal benefits, whilst also providing those unit holders with an attractive yield and a complementary exposure to the fund's broader diversified total return objective.



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 annually. Written reports are produced as part of this review process, which are discussed with senior managers within our organisation. In instances 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 used a primary ethics research service provider to supplement in-house research. As the CFB/Epworth looked to increase its positive ethical screening capabilities, as well as its utilisation of SDGs within the portfolios, a further review of this provider was undertaken. Meetings with them and other providers led to a conclusion that a change in provider would more fully enable CFB/Epworth to integrate stewardship and investment in the aforementioned manner. The new provider was also deemed more technologically progressive and would therefore be well-placed to offer insight that others perhaps could not, especially as technology and sustainability reporting both develop. This change of provider has gone smoothly and is feeding through into our processes well.



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.

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.

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 over 500 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.

CASE STUDY ► IMPROVING LIVES FOR TEA PLANTATION WORKERS

We corresponded with Unilever in 2019 regarding conditions of employment on Assam tea estates and were encouraged to read about the work that Unilever was doing to improve the lives of people working in tea production.

One of many major programmes that was outlined by the company was the partnership with UN Women to promote women's safety and labour conditions on tea estates in regions such as Assam in India and Kericho in Kenya.

We were alarmed to read the February 2023 BBC article regarding allegations of sexual abuse on Kenyan tea farms at a time when Unilever retained an economic interest in the country, which turned our attention to the risk of sexual abuse across the Assam tea estates in India.

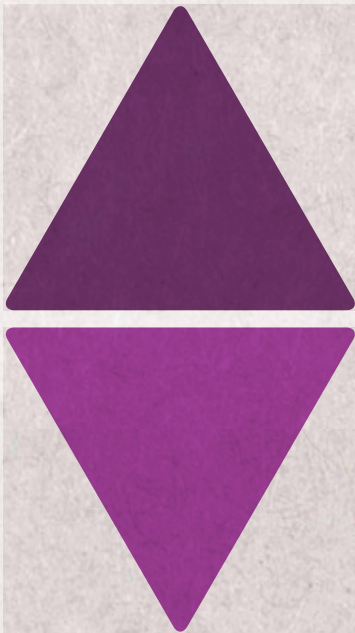
The June 2022 article on the UN Women website titled 'A comprehensive approach to ending violence against women in rural space in India' provides some unacceptable statistics on the number of violent incidents against women.

In February 2023 we began an engagement programme with Unilever to learn more about what role the company is playing in trying to put an end to this abuse. Unilever's 2021 Human Rights Progress Report noted the requirement for additional levels of due diligence where endemic human rights negative impacts have been identified, and we would like to gain a better understanding of the due diligence process that Unilever has in place with regards to the Assam tea estates.

Our research also noted that Unilever has committed to a target of training 200,000 workers in Assam on gender-based violence by 2023, as part of its involvement with the Women's Safety Accelerator Fund. Our engagement seeks to monitor the company's progress against this target and how it plans to measure outcomes.



A portfolio with a purpose



100%

AIR SOURCE HEAT PUMPS

MJ GLEESON

Home builder

Within 2 years all new homes will have air source heat pumps

- ▶ Epworth Climate Stewardship Fund
- ▶ Epworth UK Equity Fund

80%

RECYCLED OR ALTERNATIVE STEEL

TROAX AB

Industrials

By 2030, 80% of steel consumption will come from either recycled or alternative steel

- ▶ Epworth Global Equity Fund

61%

FOOD WASTE REDUCTION

CRANSWICK

Food producer

Since 2017 edible food loss and waste has been reduced by 61%

- ▶ Epworth Climate Stewardship Fund
- ▶ Epworth UK Equity Fund

2952 GWH

SUSTAINABLE ENERGY GENERATED

GREENCOAT UK WIND

Infrastructure fund

In 2020, Greencoat UK Wind's farms generated 2952GWh of sustainable electricity

- ▶ Epworth Climate Stewardship Fund
- ▶ Epworth Multi-Asset Fund

37M M³

REDUCTION IN POLLUTING DISCHARGES

INTERNATIONAL PUBLIC PARTNERSHIPS

Financial services

Thames Tideway Tunnel - reduce polluting discharges into the River Thames by c37 million cubic metres in a typical year

- ▶ Epworth Multi-Asset Fund

60%

REDUCTION IN CARBON INTENSITY

AVIVA

Financial and insurance

Achieve a 25% reduction in carbon intensity of assets by 2025, and 60% by 2030

- ▶ Epworth Climate Stewardship Fund
- ▶ Epworth UK Equity Fund

MJ Gleeson

<https://www.mjgleesonplc.com/sustainability/sustainability-targets/>

Cranswick

<https://cranswick.plc.uk/sustainability>

International Public Partnership

<https://www.internationalpublicpartnerships.com/our-portfolio/projects/thames-tideway/>

Troax AB

https://www.troax.com/sites/default/files/downloads/Troax%20Sustainability%20Report_EN_6.pdf

Greencoat UK Wind

https://www.greencoat-capital.com/~/_media/Files/G/Greencoat-capital/ESG/2019%20Reports/greencoat-uk-wind-esg-report-2020.pdf

Aviva

<https://www.aviva.com/sustainability/our-ambition/>

COLLABORATION

How we participate in collaborative engagement to influence issuers

OUR APPROACH

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.

The CFB and Epworth are signatory participants in several investor coalition initiatives that support collaborative action on material ESG risk. These include:

- ▲ 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)
- ▲ Principles of Responsible Investment (PRI)
- ▲ Members of the UK Sustainable Investment & Finance Association (UKSIF)
- ▲ ShareAction
- ▲ Climate Action 100+
- ▲ Find it, Fix it, Prevent it
- ▲ Faith Invest

CASE STUDY ► TARGETING NET ZERO

The CFB/Epworth are co-leads for Climate Action 100+'s (CA100+) engagement with the multinational mining company Anglo American. The efforts undertaken by the CFB/Epworth, the other co-leads, and supporting investors has moved Anglo American to set a goal to reduce net emissions to zero in the long-term, publish a detailed pathway of actions, publish a scope 3 inventory, conduct scenario analysis, and improve governance and transparency on indirect lobbying. Most recently, again in line with CA100+ requests, the company included in its latest climate report a 1.5 degree scenario analysis, actions to support a just transition and a quantitative Scope 3 ambition.

The collaborative group is now focussing its attention on Anglo American's methane emissions from the mining of coking coal. The mining of coking coal is a major source of methane emissions globally. The IEA calculates that more methane is released by coking coal mining than from the world's gas pipelines and LNG facilities combined. In addition, methane has a much greater global warming potential than carbon dioxide, increasing the urgency of managing these emissions.

Methane emissions represent the largest component of Anglo American's Scope 1 emissions. The current Scope 1 and 2 emissions targets cover methane emissions, however, given the significance of methane to Anglo American's operational emissions, it is important for investors to be able to evaluate progress towards mitigating methane emissions. As such, the CFB/Epworth and the CA100+ co-lead, Robeco, have asked Anglo to set methane-specific reduction targets.



CASE STUDY ► CEASING FOSSIL FUEL FUNDING

In the wake of HSBC's announcement to cease new fossil fuel project funding, we co-signed letters organised by ShareAction to Barclays and BNP Paribas, encouraging these banks to do the same and cease direct financing of new oil and gas fields. The goal is to create a snowball effect in the European banking industry following HSBC's announcement, whereby banks stop funding new fossil fuel projects.



ESCALATION

How we escalate stewardship activities to influence issuers

OUR APPROACH

We maintain clear practices and processes for the escalation of engagement oversight, depending on the nature of the issue.

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,

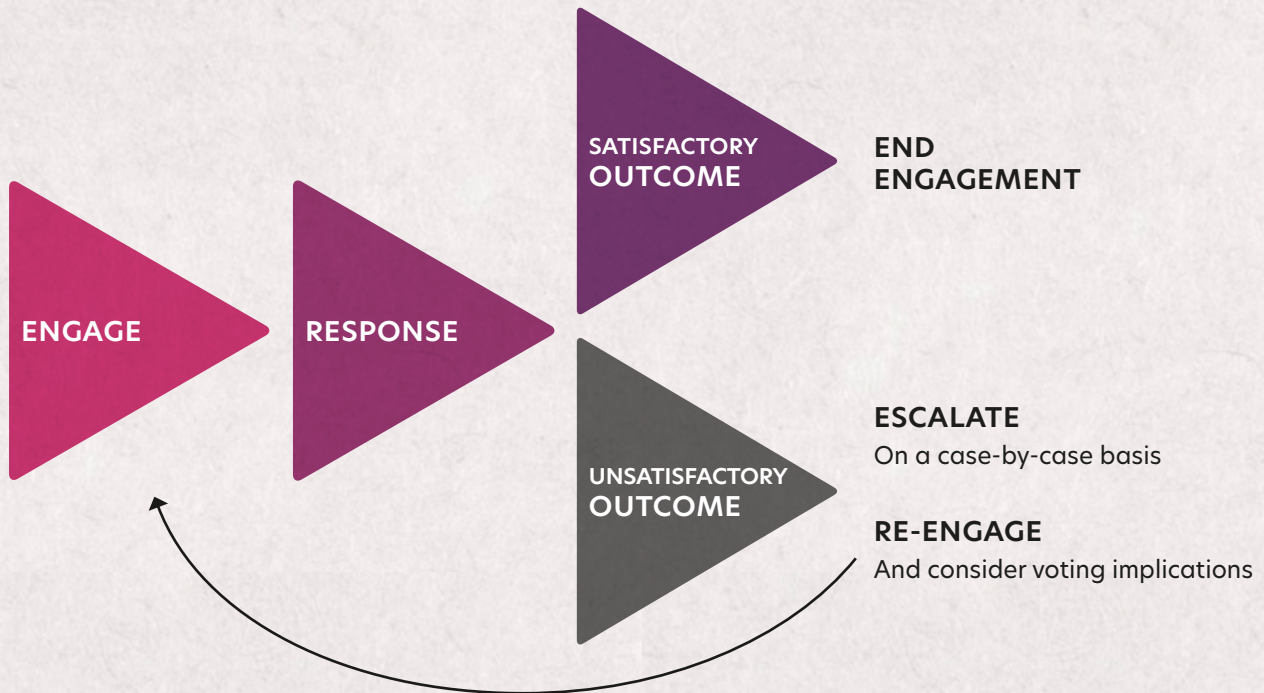
allowing approximately 30 days for a response; after which a written reminder will be sent. Where no response thereafter is forthcoming, the usual method of escalating contact with investee companies is via senior management; the Chief Executive (for strategic and operational matters) or the Chairman 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 includes sometimes 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.

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



CASE STUDY ► ENGAGING OVER THE LONG-TERM

The Epworth UK Equity Fund has held exposure to Brooks Macdonald for over 5 years, a relatively small Wealth Management business with operations in the UK and the Channel Islands. Over that time, we have met twice a year with management to update on the progress the business is making, and this has allowed the development of a longer-term engagement relationship.

The business has made significant progress improving its financial position and growth opportunity in recent years but has provided more limited tangible progress that it is improving its ethical profile. Examples of success have included voting consistently against the remuneration report, which has yielded productive conversations and improvements in the remuneration approach adopted by the company.

However, the company has made much slower progress on its broader sustainability approach and impact, partly because of changes at senior leadership level in recent years, which has frustrated us in our objective of seeking our investments to be clear leaders in the sectors and industries. As a result, we have communicated our concerns at the slow progress to the CEO directly in more recent meetings, highlighting that Brooks should really be an accredited Living Wage employer by now as an example, and asking why there is not clear representation for sustainability issues at board level.

The company has promised us that it will release a much more comprehensive sustainability report later this year, which it hopes will coincide with it achieving B Corp certification status, and it will also look to achieve the Living Wage accreditation. We look forward to continuing this engagement and seeing the business deliver more substantial progress in these important non-financial areas.



EXERCISING RIGHTS AND RESPONSIBILITIES

How we actively exercise our rights and responsibilities

OUR APPROACH

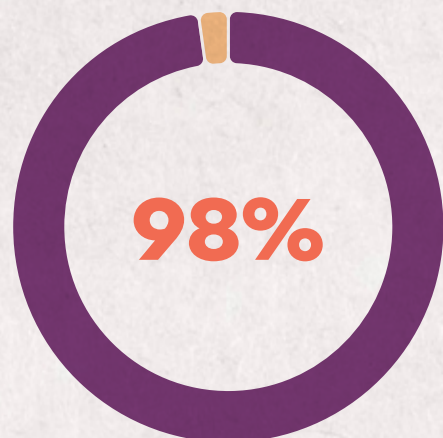
The CFB/Epworth supports the principle of considered voting, believing that shareholders have a vital role to play in encouraging high standards of corporate governance from the perspective of being long-term investors. We will therefore register and vote proxies at all meetings in which we have a shareholding.

In calendar year 2022, we voted in 98% of meetings cover 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.

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. Voting outcomes are monitored closely to ensure they are appropriate and comply with the policy template. Voting decisions can be manually overridden if required, but this is a rare occurrence.

Remuneration issues tend to dominate our voting considerations, and we also have an approach of holding directors to account for their actions. 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. Our voting policy also sees us voting against the approval of a significant number of company Report and Accounts, due to concerns about the disclosure and management of the risks and opportunities associated with climate change. Where we vote against a company board committee, member or item on the ballot, this is outlined in our voting summary template, 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.



The CFB/Epworth actively votes directly held shares. Any controversial, or off template votes are discussed within the team and approved by ERIM. Our Corporate Governance proxy voting policy and summary voting template (the latter developed in partnership with other like-minded investors) can be found here: <https://www.cfbmethodistchurch.org.uk/voting-policy/>.

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. It should be noted that some of our key client relationships have observer status on JACEI and

therefore see the formulation of all policies, including voting templates, and have an opportunity to comment on them.

Our summary proxy voting reports are published electronically each quarter, whilst a full voting record is available on request. Voting rights for securities held within segregated client portfolios are voted in accordance with the CIG common voting policy. In accordance with CIG common voting policy, the CFB and Epworth do not arrange stock lending and recall.

The CFB/Epworth has also developed a 'say on climate' voting guideline that better scrutinize disclosure criteria that would lead to a positive vote, or conversely a negative vote.

CASE STUDY ► SUPPORTING THE LOWEST PAID

In September 2022, three UK-based organizations committed to promoting socially responsible investment - the CFB/Epworth, the Church Investors Group, and the CCLA - wrote to 100 of the largest publicly listed employers in the country. The letter inquired about measures being taken by these companies to support their lowest paid employees during the cost-of-living crisis. The recipients of the letter included major companies such as AstraZeneca, BT, HSBC, Shell, and Unilever, with a combined market capitalisation of £1.7 trillion and a workforce of approximately five million people (excluding contractors such as cleaners and security personnel).

This call for action comes in response to data released by the Living Wage Foundation, which shows that 78% of low-paid workers in the UK (3.7 million people paid below the real Living Wage) consider the cost-of-living crisis to be the worst financial period they have ever faced, with 56% relying on food banks in the past 12 months. The investor letter specifically asks companies if they have implemented initiatives to support their lowest paid employees during the upcoming winter, and if so, what percentage of the workforce will be affected and whether third-party contractors are eligible for assistance. In the event that a company has no plans to assist staff, the letter requests an explanation for their inaction.

The letter acknowledges that some companies are already taking steps to help their employees, including one-off payments and hardship funds, according to a recent survey by PwC. However, the CFB/Epworth and CIG view the growing inequality as a systemic risk and seek to promote inclusive growth. They have updated their collaborative Voting Guidelines and will not support executive pay increases next year for companies that have not taken steps to support their lowest paid workers through the rising cost of living.



Central Finance Board of the Methodist Church
Epworth Investment Management Ltd
9 Bonhill Street
London
EC2A 4PE

www.cfbmethodistchurch.org.uk

www.epworthinvestment.co.uk

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.