

Epworth Climate Stewardship Fund for Charities

The Epworth climate stewardship approach

May 2020

The Epworth Climate Stewardship Fund for Charities is designed to help charities meet their investment objectives with a portfolio which reflects the urgent need to tackle the climate emergency.

The Fund uses a combination of exclusions, engagement, and positive investment to reflect the need for a world with lower carbon emissions. Epworth applies its Christian ethical investment approach throughout.

The Epworth investment team fully integrates ethical/ESG analysis into its investment process, with portfolio managers who understand how companies work engaging directly with climate concerns.

Exclusions

This Fund seeks to exclude companies which extract and/or refine fossil fuels and seeks to exclude companies which have a material involvement, such as represented by over 20% of turnover, with supplying the fossil fuel extractives and refining industry with goods or services. These exclusions are in addition to those companies already excluded through our Christian ethical investment process.

Greenhouse gas emissions

The Climate Stewardship Fund seeks to minimise exposure to other companies that are fossil fuel intensive or are responsible for high levels of greenhouse gas emissions.

- Carbon intensity
We screen for carbon intensity, which is the measure of a company's greenhouse gas emissions relative to its revenue. This metric enables comparisons to be made between companies, taking account of the ongoing size of their activities.

We use the definition recommended by the Taskforce for Climate-related Financial Disclosures (TCFD)¹:

Carbon intensity = issuer's Scope 1 & 2 emissions / issuer's revenue (\$m)

Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy.²

To minimise exposure to fossil fuel intensive companies the Fund will not normally hold the most carbon intensive companies unless Epworth believes material change is imminent or the company has a vital role in a lower carbon world while taking leading action on controlling its own emissions.

¹ <https://www.fsb-tcfd.org>

² <https://ghgprotocol.org>

- **Weighted average carbon intensity**
The Fund aims to have a weighted average carbon intensity (WACI) substantially lower (at least 15% lower, but better if possible) than that of the FTSE All Share Index.

To look at the carbon intensity represented by the whole portfolio, and to compare it with the benchmark, we use the TCFD definition of weighted average carbon intensity:

Weighted average carbon intensity = the sum of [(current value of investment / current portfolio value) x carbon intensity]

Different activities will have different levels of carbon intensity. Some activities might be essential in a lower carbon world yet produce relatively high emissions which are currently difficult to abate.

- **Responsibility for high levels of greenhouse gas emissions**
Companies are assessed for responsibility for significantly high emissions with insufficient mitigation or indirect responsibility for particularly high emissions, perhaps in their supply chain or in the use of their products (Scope 3 emissions). The Fund seeks to minimise exposure to material examples of such companies. The measurement and estimation of Scope 3 emissions is not yet at a sufficiently advanced stage to be used meaningfully across a portfolio.

Engaging for change

As part of the global effort to tackle climate change, the Climate Stewardship Fund will engage with companies whose shares are held in the portfolio to encourage more action to reduce the risk of climate change.

Epworth has a long track record of extensive engagement with the companies held in the Funds it manages. Epworth engages with holdings across the Fund on a variety of ethical concerns.

The Climate Stewardship Fund encourages companies to do more to reduce greenhouse gas emissions and take account of climate risks. It seeks to persuade them to do more to be part of the transition to a lower carbon world. Companies in different sectors have different responsibilities and the Fund will engage accordingly.

The financial sector has a share of the responsibility to transition to a lower carbon world. Financial companies are unlikely to have relatively high Scope 1, 2, or 3 emissions but might help to fund companies which do. The Climate Stewardship Fund engages with any banks in which it has shareholdings to encourage them to reduce lending to fossil fuel companies in line with a transition to lower carbon emissions.

Climate change engagement activities undertaken on behalf of the Fund include:

- Meeting companies to express our concerns in person and learn more about their response to climate change.
- Pressing companies to better address climate change risks.

- Taking part in investor collaborations, such as those organised by the Institutional Investors Group on Climate Change, Climate Action 100+, Transition Pathway Initiative, and the Powering Past Coal Alliance.
- Supporting and co-filing shareholder resolutions calling for more action.
- Making statements or asking questions at company AGMs.
- Voting at company AGMs on specific climate change criteria.
- Attending company presentations and consultations.
- Writing and supporting investor letters expressing concerns.
- Making public statements calling for companies to change.
- Taking part in public policy engagement for faster and better transition in support of the investment objectives.

Where engagement is judged, ultimately, to be unsuccessful and where the issue of concern is material in terms of the extent of company involvement or the nature of the concern, a decision may be taken to exclude a company from investment.

Positive investment

The Climate Stewardship Fund invests in the shares of companies that Epworth believes will contribute to a transition to lower carbon emissions in the UK or globally.

These can include companies which are:

- leaders in making their businesses more sustainable
- developing new technologies
- providing goods or services that assist with transition
- generating power from renewable sources

Where the investment case makes sense, the Fund will hold such companies.

For further information, including regular updates on how Epworth is applying the Climate Stewardship approach, see www.epworthinvestment.co.uk.

Risk warning and notes

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. The value of units in funds can fall as well as rise and past performance is not a guide to future returns. The level of income is also variable and investing in Epworth funds will not be suitable for you if you cannot accept the possibility of capital losses or reduced income. Any estimates of future capital or income returns or details of past performance are for information purposes and are not to be relied on as a guide to future performance.