Central Finance Board
of the Methodist Church

Epworth
Investing with Christian ethics

For People and Planet

2021 Stewardship Report

Table of Contents

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.

£1.3 billion

assets under management

25+ years

ESG integration

200+ clients

currently served

Principle 1

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.

In 2020, we stated...

- 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.

- As an organisation, we 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 deserve a wage which meets everyday needs.

- The shareholder of Epworth, 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. Disinvestment is a tool to be reserved for the most flagrant of abuses and where engagement has manifestly failed. Investment returns will always be the paramount concern of our clients, but ethical outcomes rank alongside these as part of our key performance indicators. We are overt about our Christian culture in our engagement with clients, the media, the market and our colleagues in the Church. This combination of investment and ethical outcomes lies at the heart of what Epworth offers and has found traction both within and outside the Christian community.

- The CFB and 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.

- We invest in sustainable companies and engage with their management to influence behaviour and ensure they are acting in a responsible way that benefits the environment and wider society. We believe that companies which are managed in a responsible and sustainable way, deliver superior long-term returns.

- Our company engagement activities have frequently resulted in an improved focus on acting in a responsible way. We have enjoyed particular success in helping companies to improve their policies and track records on a range of human rights issues, reducing their environmental impact, and in managing their businesses in a way which benefits wider society.

- A number of companies, operating in particular industries, are excluded by default, in accordance with our Christian values. However, we sometimes exclude companies following a period of engagement, where the engagement does not lead to the changes within a business that we consider necessary.

- We take an active approach to investment management, believing this is the best way to add value for our investors. We help control risk by investing only in sustainable companies.

- To assist the CFB 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 Conference which includes a resolution 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 statements and position papers to the CFB, which guide ethical investment decisions. Membership of the Committee consists of representatives from the Church's governing body (Methodist Conference) and the CFB. 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 2020 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 2021 Methodist Conference.

- Our model is to produce qualitative position papers on a range of material ethical and ESG subjects that subsequently lead to a policy being adopted. These position papers will set out the theological considerations and historical context that should be considered in forming the policy, including Christian and Methodist Church teachings. They may also reflect on the position of other Christian groups on the issue.

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

> "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 good investment returns have helped our clients to achieve their financial objectives in a manner which is consistent with their beliefs and mission objectives.

In 2021, we strengthened our reporting by...

In an effort to further integrate stewardship and investment, 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:

Step 1

Data collection

38 data sources are utilized to cover the salient points of a sector policy

Step 2

Categorization

The scoring system splits the data sources into 8 SDG aligned ethical categories

Step 3

Weighting

Data points are equally weighted within a category. Overall category scores are weighted according to sector priority

Step 4

Score card

The outcome of the scoring structure is an overall ethical score shows relative company performance and splits out ESG leaders and laggards

In 2021, we demonstrated our stewardship by……

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 good investment returns have helped our clients to achieve their financial objectives in a manner which is consistent with their beliefs and mission objectives.

Last year, our ethical priorities were:

Further integrate ethical considerations into its investment process across asset classes, evaluating environmental, social and governance (ESG) risks in the businesses in which it invests – see case study 8

Build relationships with investee companies to encourage dialogue on ethical issues and be a Christian witness in the investment community – see case study 15

Broaden ESG reporting across portfolios within the CFB discipline of effective and transparent reporting to clients -– see case study 6

Be active in both direct and collaborative engagement and partnerships – see case study 12

Further reviews of the alignment of the oil & gas sector with the aims of the Paris Accord – see case study 5

Engagement with our investee companies on tax justice, with an emphasis on improving tax reporting and achievement of the Fair Tax Mark accreditation– see case study 10

A review of our policy on investment in companies that engage in activities in the occupied territories in Israel/Palestine – this is published on our website https://www.cfbmethodistchurch.org.uk/ethics/

An update to our media policy for recent developments in social media – this has become a priority for the coming year.

Seek continuous improvement across external reporting requirements under frameworks such as the PRI and the Stewardship Code.

In the coming year, our ethical priorities are:

Further integrate ethical considerations into its investment process across asset classes, evaluating environmental, social and governance (ESG) risks in the businesses in which it invests.

Continue to build relationships with investee companies to encourage dialogue on ethical issues and be a Christian witness in the investment community.

Strengthen ESG reporting across portfolios within the CFB discipline of effective and transparent reporting to clients.

Be active in both direct and collaborative engagement and partnerships.

Develop a more robust and dynamic cross sector climate emergency policy that better responds to the initiatives outlined at COP26.

Implement mining sector policy that equips investee company engagement in pursuit of a just transition.

Engagement with our investee companies on tax justice, with an emphasis on improving tax reporting and achievement of the Fair Tax Mark accreditation.

An update to our media policy for recent developments in social media.

Interrogate the relationship between bank’s lending practices and companies’ climate action plans

Principle 2

Our approach to governance, resources and incentives.

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 Executive Committee, whilst retaining its monitoring and oversight role through its Council and Management Committee meetings.

The Executive Committee is responsible for identifying the major risks faced by the CFB 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. The Committee is made up of three full time individuals at the present time, each with 20+ years of experience in investing and managing businesses across a variety of industry settings.

In 2020, we stated...

Our ethics work is headed up by our Head of Ethics, 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 are able to draw upon CFB and Epworth's long history of ethical investing, in order to work closely with companies on managing their businesses in a responsible and sustainable manner.

- Some members of our team have a background in theology through their academic studies. In addition, a number of our investment team members are CFA charter holders, which has ESG investing as a core component of its charter holder program.

- Individuals joining the CFB investment team quickly become involved in the ethics work that we undertake and are provided with practical training aimed at providing them with real world experience of Christian ethical investing.

- Data sources for our ethical screening and identification of potential ethical issues include Sustainalytics and Bloomberg. The CFB and Epworth are also supporters of a number of collaborative bodies such as the Transition Pathways Initiative that provides data produced by the London School of Economics on sectors and companies' alignment with the targets of the Paris Accord.

- 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 investment portfolios from an ethical perspective as well as our regular corporate governance activity. In addition to guiding the CFB 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.

- We have a culture of recruiting individuals who support and understand our Christian 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, instead, 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.

Rev Dr Andrew Harper
Head of Ethics

020 7496 3615
andrew.harper@epworthinvestment.co.uk

In 2021, we strengthened our reporting by...

- 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.

In 2021, we demonstrated our stewardship by...

- 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 2020 JACEI membership represented expertise from: the charity finance sector, the mining sector, climate action, theological backgrounds, the civil service, mental health, government and politics, NGOs, social care, accounting, legal services, armaments, and conflict zones.

- At the end of reporting year 2020, a review of JACEI's membership was undertaken to ensure representation was meeting the dynamic needs of ethics. The conclusions of the review indicated that JACEI would benefit from a more diverse representation particularly individuals from varying ethnic minority, socio economic and gender backgrounds. Further, the review also noted that in order to meet the ethical priorities for reporting year 2021, expertise from the banking, tax, textile, and media sectors was required. As such, a recruitment process was successfully undertaken, and four new members joined the Committee. Apart from satisfying the growing need for diverse expertise, the new members represent individuals that meet the ethnic minority, socio economic and gender backgrounds as outlined in the review.

- Members of the investment team have been encouraged to sit the CFA Certificate in ESG Investing which was launched during the year.

Did you know?

75%

Female representation on the CFB/Epworth executive team

Principle 3

How 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.

In 2020, we stated...

- Epworth is regulated by the Financial Conduct Authority ("FCA"). The regulatory Compliance Manual retains a full conflicts of interest policy and a 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. All CFB and Epworth Governance meetings begin (after devotions) with declarations of interest.

Case Study 1 : Management of pension schemes providing employee pensions

The major conflict of interest that has arisen, 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 in order 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 2 : Order execution policy

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.

- Another example of a potential conflict is one between clients, whereby there may be conflicts of interests between the investors of one of more of the funds that we manage. Mitigation controls are provided by clearly defined investment policies recorded in prospectus, scheme particulars, and investment management agreements, and with separate policies on best execution and allocation & aggregation.

- 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 of 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 on a voluntary basis across the CFB's activities.

- Epworth's Senior Management is responsible for ensuring that 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 that may arise. They will ensure that they receive sufficient Management Information to enable them to carry out an informed assessment of the Firm's arrangements in order to assess that they are operating effectively. 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.

Principle 4

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.

In 2020, we stated...

- 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 number of such risks, and considers their relevance to the companies that the funds invest in.

- The climate emergency has been at the centre of our attention for a number of years. Recognising the need for the world to reduce its reliance on fossil fuels, we have developed ethical policies which consider both the supply and demand of fossil fuels, and have engaged with a large number of companies, covering many different sectors, on their role in facilitating the energy transition. We have been encouraged at the progress made by many companies, but the slow pace of change made by certain companies within specific industries, has ultimately led to a decision to divest.

- 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. This includes an analysis of 1.5 degree scenarios and 2050 net zero pledges and investing in companies that are aligned with the need for a greater pace of change.

- The Covid-19 pandemic has given rise to a number of risks relating to our organisation. Prior to the pandemic we determined and practiced disaster management scenarios, which included the need to work remotely. This pre-planning enabled us to transition effectively into a working from home environment, and to continue to offer our clients a full range of investment services. The CFB reacted early to the threat of the pandemic, moving staff to a shift system to enable social distancing and reduce exposure on public transport in advance of the lockdown announced by the UK Government. All of the process that previously took place in the office, now take place remotely, and all meetings take place using videotelephony.

- During the early days of the pandemic and the sharp falls seen in equity markets we were pro-active in monitoring our liquidity risk and collaborating with our counterparties and Trustees to ensure that no systemic risk arose from our portfolio positions.

- Epworth manages a Common Deposit Fund that invests in short-term money market instruments. We engaged early with software developers to ensure that they were considering updates and changes that may be required in a negative interest rate environment.

- Many of our charity clients rely upon the income from their investments to meet their operational needs. With declines in investment income during the pandemic we are therefore restructuring our funds as to increase the income distributable to our investors.

- The health and safety of our staff has been a key focus area during the pandemic, and we have supported all employees in adapting to working from home and coping with issues such as social isolation and physical wellbeing. We have supplied office furniture to all who required it to ensure that posture and other working conditions are appropriate in the work from home environment.

In 2021, we strengthened our reporting by…

- There are a large number of market risks that must be considered when investing on behalf of others. 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.

- We have ethical exclusions in most portfolios, and we monitor those to ensure we understand any specific risks they bring. 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.

- Most of our clients have investment targets based around real levels of return and/ or income, 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 management of our 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. This proactive approach meant we were well-positioned at the onset of Covid-19, with a focus on high quality credit in our fixed income funds, and a lack of debt-laden firms in our equity funds.

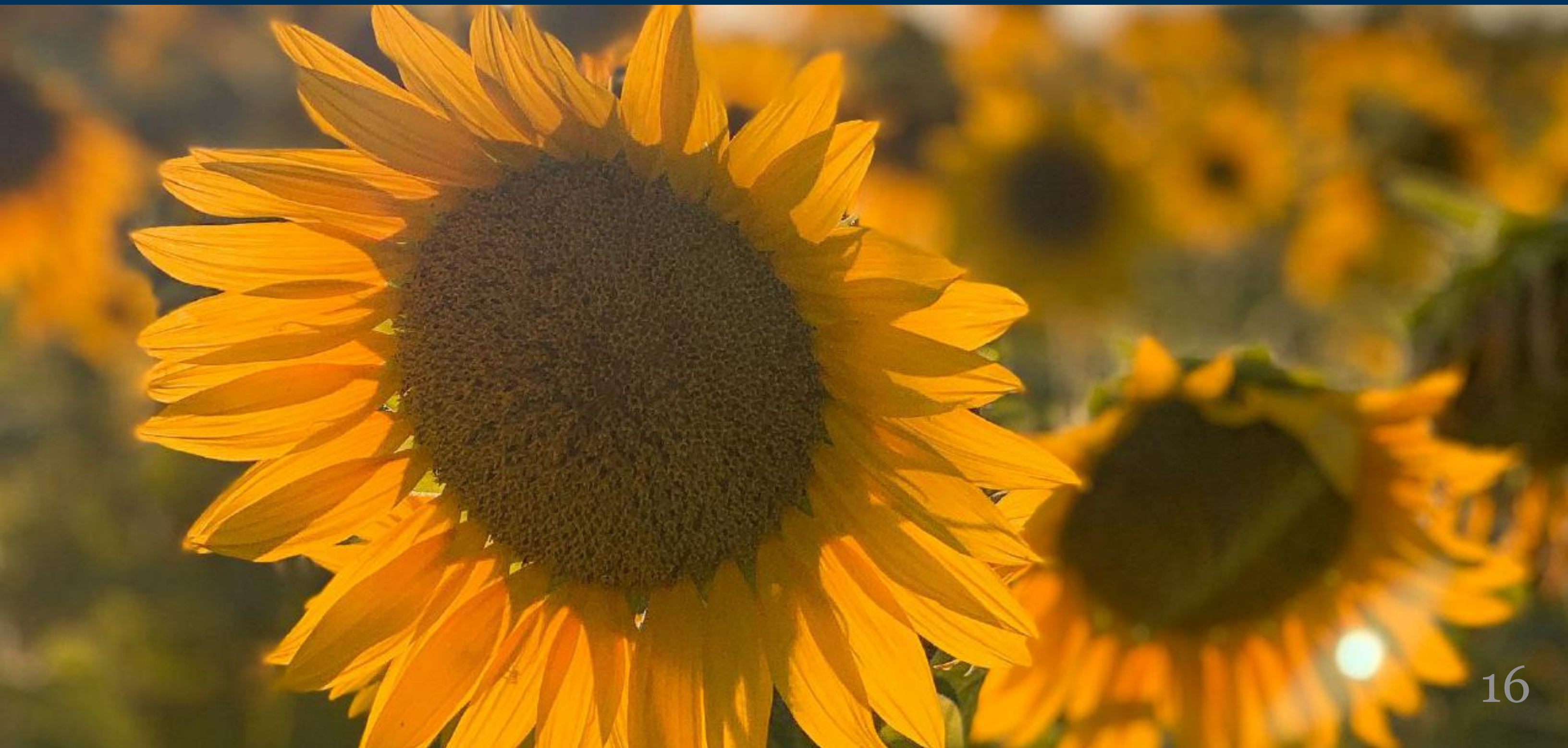
- Cyber risk is a wide ranging term which incorporates the risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems. It includes malicious attacks designed to steal, disable, destroy or hold to ransom data from its 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 enabled us to follow Government recommendations throughout the Covid pandemic with no loss of BAU and mitigating the additional risk of working from home. During this time, we have reviewed and strengthened our defences against Cyber-attack upgrading and locking down firewalls, migrating to a more comprehensive anti-virus solution, adopted a desktop patch management solution and initiated Cyber Essentials accreditation. 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.

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.

In 2020, we demonstrated our stewardship by...

Case Study 3 : Systemic risk - Russian exposure in ETFs

On 24 February 2022 Russia invaded Ukraine. Western governments were united in swiftly implementing sanctions on Russian banks and companies. We reviewed our portfolios for exposures and determined that our only exposure to Russia was via two ETFs that we hold to give global emerging market exposure. At the time of invasion Russia made up approximately 3% of global emerging market indices, and so, given these ETFs were approximately 10% of our Global Equity Fund, the overall exposure was approximately 0.3% of the Fund. We decided that for both fiduciary and ethical reasons we wanted to remove this exposure and confirmed the view with our Ethics advisory Committee. We spoke to our ETF provider and were assured that they were in the process of removing the Russia securities from the vehicle, so we decided to retain these vehicles until that was done rather than divest immediately. We believed that this was the best implementation route, effectively removing the exposure without conflicting with our fiduciary duty.



Case Study 4 : Cyber risk - Email phishing

A scanned email request to withdraw funds from a client Church account failed due to insufficient funds to make the transfer. A new request was received for a lesser amount to unregistered bank details. Documentary proof of the new bank details was requested but wasn't provided. The request came with a sense of urgency and although the signature and email address appeared correct there were various anomalies regarding handwriting, use of English and a repeated typing error in the covering email. Comparison against a previous withdrawal request to the client's registered account highlighted the same withdrawal slip had been altered and re-used. Contact was made with registered correspondent who confirmed that no withdrawal requests had been made for 2 months.

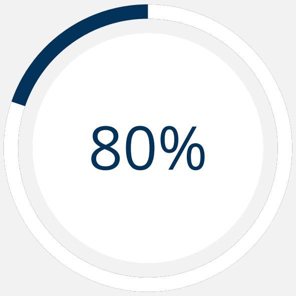
Case Study 5 : Operational risk - additional planning

When we have a significant or unusual transition, we institute extra planning and oversight to ensure that we manage any additional risks appropriately. For example, we recently conducted an in specie transfer within the Epworth Corporate Bond Fund. We set up an Oversight Committee, reporting to our Executive Committee, to oversee the process. In addition, we worked with all related parties to ensure that everyone had the appropriate information to allow the transaction to progress smoothly and with minimal disruption.

Did you know?

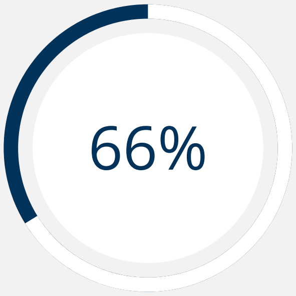
The CFB/Epworth is proud to work with other Living Wage employers in London – who, between us, have lifted more than 10,000 families out of working poverty.

Stewardship in practice: Carbon Intensity



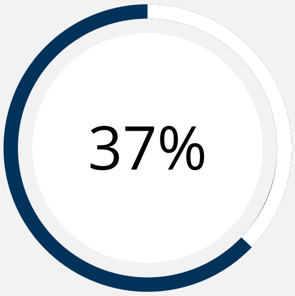
Epworth Climate Stewardship Fund

Overall, the Epworth Climate Stewardship Fund is 80% less carbon intensive than its benchmark.



Epworth Global Equity Fund

Overall, the Epworth Global Equity Fund is 66% less carbon intensive than its benchmark.



Epworth UK Equity Fund

Overall, the Epworth UK Equity Fund is 37% less carbon intensive than its benchmark.

The Epworth funds listed report on their carbon footprint using independently verified data. The Epworth Climate Stewardship Fund has a mandate to have a carbon footprint substantially below (at least 15%) that of the FTSE All Share Index.

Principle 5

How we review our policies, assure our processes and assess the effectiveness of our activities.

Our approach

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.

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.

In 2020, we stated...

- The Joint Advisory Committee on the Ethics of Investment (JACEI) serves to provide 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's stewardship interventions, which is published on the CFB website. This includes engagements with companies with both successful and unsuccessful outcomes. We engage with companies on a range of issues, some of which encourage accreditation with various bodies such as the Living Wage Foundation and the Fair Tax Mark. In some cases, companies are not in the position to be able to accredit or take any further steps due to circumstances outside of their control.

- JACEI has a policy of periodically refreshing members on the Committee, with appointment of new members by the both the CFB and Methodist Council. JACEI has terms of reference that ensure that the Committee is refreshed frequently, with a maximum term of 6 years for members.

- The CFB ethical position papers and policies which govern its investments are all recommended to the CFB by JACEI. JACEI regularly updates these to ensure they remain relevant. New position papers and policies arise in relation to new ethical issues which are discussed within the committee. JACEI also has the option to write more specific policies, such as in the case of climate change, where its first policy in 2009 was a general policy, with following policies related to specifically exposed sectors.

- 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 meeting and RI reports to clients which it can follow up on within its meetings. Given the strong focus on Stewardship within and across the CFB and Epworth, we believe JACEI provides the appropriate and relevant external oversight commensurate with our being accountable to the Methodist Church.

In 2021, we strengthened our reporting by...

- A review of the JACEI annual report was undertaken in reporting year 2021. As a result of this review, JACEI and the CFB have agreed to strengthen the record of accountability by more closely aligning the JACEI annual reporting process with the stewardship activities of the CFB.

- We have strengthened the transparency of our reporting to clients through Responsible Investment reports. These are sent to clients within the quarterly reporting statements that they usually receive. This allows for opportunities for clients to scrutinise our ethical performance compared with our aims and objectives as set out in the Stewardship Code.

In 2021, we demonstrated our stewardship by...

Case Study 6 : Which leads to the best Stewardship outcome – disinvestment or engagement?

The CFB's stewardship in the oil and gas sector remained in focus in 2021. After rigorous assessment of oil and gas companies' alignment with the well below 2-degree climate change objective of the Paris Accord, the CFB and Epworth disinvested from most of its remaining holdings in the oil and gas sector after concluding these holdings were not aligned or close to being aligned with the Paris Accord. The CFB and Epworth set out to engage with its remaining oil and gas holdings, largely through shareholder coalitions, with a goal to encourage improvements in governance, capital expenditure plans, emissions, and climate-linked remuneration targets. The engagement was undertaken with the recognition that the pace of change of the remaining oil and gas companies needed to accelerate in order to limit global warming to well below 2 degrees and aiming for 1.5 degrees.

In 2021, further assessment of the aforementioned areas concluded that progress had been made in some areas by the remaining oil and gas companies. However, it was deemed that improvements had not been enough given the pace of change required, and therefore these companies were no longer allowed the benefit of the doubt as to whether they were 'close to' being aligned. Thus, in this particular case, engagement had not led to the desired outcome, and therefore the most appropriate stewardship approach was to divest from these remaining companies.

Epworth Investment Management Limited and its parent, The Central Finance Board of the Methodist Church sold their remaining company holdings in the oil and gas sector, including Royal Dutch Shell in reporting year 2021.

Following our experience of assessing the oil and gas sector, we aim to develop a more robust and dynamic cross sector climate emergency policy that better responds to the initiatives outlined at COP26.

Principle 6

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 entirely made of charities and charity pension funds. 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. Others receive asset allocation advice and have an asset allocation built to meet their needs. This uses a series of investment funds (focussed on particular asset classes).

In 2020, we stated...

- 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 portfolios are undertaken. All investment positions are reported to an ethical advisory committee.

- We report in writing 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 voting report quarterly, allowing customers to know 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.

- 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.

- Epworth regularly publishes an ethical update “Christian ethics in practice”. Each edition focuses on an ethical theme and its investment consequences. Recent themes have included:

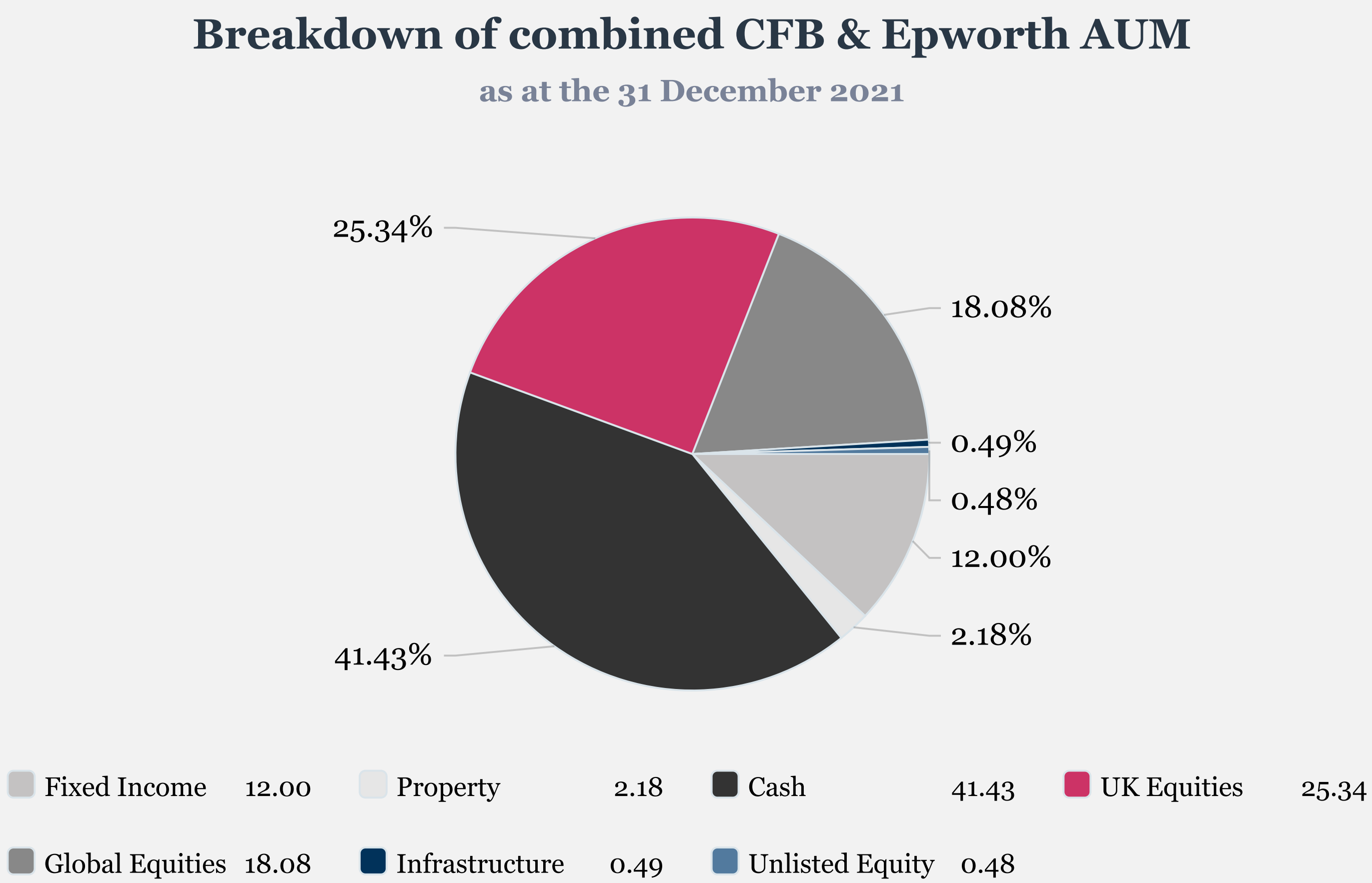
    - Tax Justice – describing our campaign for transparent reporting of tax by companies and our push to encourage them to pay the right amount of corporation tax at the right time and in the right place.
    - The Climate Emergency – focusing on Epworth’s recent support for a resolution at the Barclays Bank AGM requesting the bank to commit to phase out provision of financial services to the energy sector and any utility company not aligned with the Paris Accord.
    - Mining – focusing on the Investor Mining and Tailings Safety Initiative of which Epworth is part. This followed the tailings dam disasters in Brazil that led to a substantial loss of life.
    - Tea and Workers rights – engaging with retailers of tea to make sure that the source plantations do not engage in modern slavery or other human rights abuses.

- The above themes are also presented to clients in an open forum for discussion and challenge. Epworth has held three of these fora in each of 2019 and 2020. One example of client challenge at a recent forum concerns a software company in the gaming sector in which Epworth invests and whether the games with which it is involved include violent or sexual content. Concerns about the use of “loot boxes” in games have also been raised as this arguably constitutes a form of gambling.

- The use of external investment funds does occasionally mean that a fund will not completely meet all the investment or stewardship needs of a client. In this case, this is discussed with the client before investment.

In 2021, we strengthened our reporting by...

- As at 31 December the breakdown of our assets under management is shown in the pie chart below. This year, it also includes unlisted equity in the breakdown, showing the very small allocation to this type of vehicle.



The CFB/Epworth remains committed to integrity through transparency. In reporting year 2021, we provided our clients with comprehensive reports on our stewardship activity. In response to client needs we also produce a "Christian ethics in practice" document that helps link the charity client's mission to our own ethical activity.

During the year under review, members of the team presented to clients in open forums on a variety of ethical issues. We also supported clients with trustee training and speaking engagements at client own events.

In 2021, we demonstrated our stewardship by...

Case Study 7 : Our unique approach to client consultation

The Central Finance Board of the Methodist Church 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. This is primarily achieved using client consultations and surveys.

CFB/Epworth seeks, on a regular basis, to gather the ethical insights and priorities of our clients. Through our client management team, we produce a survey where clients have the opportunity to list the top ethical issues that concern their respective organization. The results of these surveys are compiled and, through committee and consultation, collated into common ethical themes. The resulting themes are then brought to our Joint Advisory Committee on the Ethics of Investment (JACEI) where, considering data derived from clients, 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 an issues importance to client and the horizontal axis indicated an issues sector exposure within our portfolio. The matrix provides us a clear indicator of whats most important to client 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.

This unique approach gives clients the ability to feed directly 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.

Principle 7

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.

In 2020, we stated...

- 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 reflect the aims of the Methodist Church. We also engage with members of the Methodist Church on a regular basis. A common exercise at leadership and member meetings is to ask for a ranking of ethical priorities. Over the last couple of years these have consistently identified the climate emergency, modern slavery and the use of plastics as ethical priorities for the Church. We have also recently been focusing on supply chain sourcing, paying fair wages, and tax justice.

- Each potential holding is screened for its compliance with our ethical policies ahead of making an investment, and we also screen for companies which have a positive impact on the economy, society and the environment. Some examples of this are companies which play a key role in regenerating depressed urban areas and companies whose products and services facilitate the energy transition.

- Our negative screening process utilises third party data providers, which provides us with a base level of information that can be used to assess companies in more detail. Our positive investing makes use of a broad selection of ethical data providers and traditional sell side research providers, and seeks to identify themes which again meet the aims of the Methodist Church, but which also support and advance the United Nations Sustainable Development Goals.

- 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 holds an ethics meeting once a month to discuss progress on key action points and engagement activities with corporates on ethical issues. The meeting is chaired by the Head of Ethics, who is responsible for overseeing the ethical investment approach, whilst the CEO is also in attendance. Minutes of each meeting are reviewed by JACEI.

- Whilst we have been encouraged by the increased attention that companies pay to ethical issues, 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. An example of this is the success that we have enjoyed with asking companies to sign up to the Fair Tax Mark accreditation in the UK.

- Going forward, we will continue to invest in accordance with the ethical stance and aims of the Methodist Church. The climate emergency remains at the top of the agenda, and our attention will remain focused on encouraging companies in all parts of the economy, to play their part.

In 2021, we strengthened our reporting by...

- In an effort to further integrate stewardship and investment, 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. (see page 5)

In 2021, we demonstrated our stewardship by...

Case Study 8 : Epworth Climate Stewardship Fund

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 2021, the fund achieved a carbon footprint that was 72% 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 30% of the benchmark from the investment universe for the fund, over double the amount barred from the index by Epworth's existing UK Equity fund.

Principle 8

How we monitor and hold to account service providers.

Our approach

Our dealing activities are outsourced to an external provider, which provides us with access to a large number of 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 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.

In 2020, we stated...

- An example of this thematic approach to selecting research providers is the climate emergency. A number of our research providers have expertise in this area and have been invaluable in helping us to identify companies which have a key role to play in facilitating and implementing the energy transition.

- In recent years, we have pivoted towards selecting research providers with more of a global bias. This was identified as a key need ahead of the launch of our Epworth Global Equity Fund in 2019. We now have a broad array of research providers providing coverage of all geographic regions.

- We use ESG data and research providers as part of our ethics work, which supplements and validates our own analysis. These providers are selected on the basis of ensuring that we are able to focus on the ethical issues which are most important to us.

- We carry out regular reviews of our service providers, typically bi-annually. Written reports are produced as part of this review process, which are discussed with senior managers within our organisation. In instances of 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.

In 2021, we strengthened our reporting by...

- During reporting year 2021, we carried out a special review of one of our service providers, Sustainalytics, specifically the climate rating tool. The learning from this review will carry across to our conversations and provisions with other service providers.

- The emergence of 'say on climate' votes has led to a review of our providers of data on the climate emergency. The increasing company focus on the climate emergency has led to a need for a house view on climate votes. We continue to assess service providers for the best material.

In 2021, we demonstrated our stewardship by...

Case Study 9 : Oversight of voting provider

The CFB/Epworth are part of the Church Investors Group, and vote with a common template. On an annual basis, this is revised to ensure it is appropriate, and to add in new parameters for the year to come. It is applied by Institutional Shareholder Services (ISS). CFB/Epworth and voting partners typically meet with ISS bi-annually to discuss changes to the policy, and to ensure the application is going as expected.

Principle 9

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.

In 2020, we stated...

- Our priorities for engagement are selected in accordance with the beliefs and aims of the Methodist Church, with engagement on specific ethical issues being set by JACEI and informed by our comprehensive set of ethical policies.

- 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.

- Our chosen engagement approach may differ subtly 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, in order to 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.

- Engagement is often carried out on long-standing ethical issues, such as supply chain issues for companies operating in developing countries, which often have a low Human Development Index characterised by lower life expectancy, lower levels of education, and a lower standard of living. Another core engagement issue is our over-arching human rights policy, which identifies human rights risks including all types of discrimination, self-determination, and the rights of children. This over-arching policy is supplemented by industry specific policies such as our food industry and mining policies.

- In the case of mining companies, we have long term engagement projects aimed at holding these companies to account for their approaches to the welfare and safety of their employees, and the impact that their activities have on local communities in the remote areas that they operate in. We encourage companies to develop policies, to enforce these policies, and to report on them. Our ongoing engagement with these companies, ensures that we are able to continue to influence them and to push them to continue improving on these important ethical issues. Part of this engagement is at senior executive level through the Mining Reflections and Faith initiative. This meets annually for a day of reflection between senior leaders in the mining sector and the faith community. The CFB and Epworth have been heavily involved with the organisation of this initiative, which pushes the mining industry to go further in improving health and safety, ending poverty, and protecting of the environment.

- Our engagement activity relating to the climate emergency has focused upon implementing the specific policies that we have developed on industries where there is the greatest need to reduce the carbon emissions brought on their own activities, and through the use of their products and services.

- Following our engagement, we have been encouraged to see a number of companies and industries develop roadmaps to to net zero, with regards to there being a balance between the amount of greenhouse gas produced and the amount removed from the atmosphere. However, some companies have moved at a disappointing pace, which has led to us divesting from a number of companies in recent years, including those operating in the oil & gas and electricity generation industries.

- Our climate change policies also set out an objective of making positive investments in companies which help the global economy to transition to net zero. Every company has a role to play, and we have carried out successful engagement with a number of companies across a range of different industries.

- During 2020, we engaged with over 500 companies, individually and collaboratively, on a range of ethical issues, including mental health, modern slavery, plastic, and the climate emergency.

In 2021, we strengthened our reporting by…

- During the year under review, we trained two additional people in media interaction. This has enabled us to design and implement a media strategy that better leverages our ethical positions in the public sphere. This is shown in case study 14 on Rio Tinto.

Did you know?

The CFB/Epworth remains the only asset manager to have obtained the **Fair Tax Mark** and in 2021 we were proud to renew the status.

Fair Tax

In 2021, we demonstrated our stewardship by…

Case Study 10: Fair Tax

The Methodist Church is at the forefront of a Church-wide movement titled "Church Action for Tax Justice", which stands for a fairer, greener tax system where taxes are set to reflect the Common Good, and individuals and corporations pay their fair share. Coinciding with the launch of this movement, the CFB worked with JACEI to develop a tax justice policy, which sets out the criteria for engaging with companies on the issue of tax justice and provides questions that should be asked as part of any engagement.

One of the key conduits for implementing our tax justice policy, is engaging with companies on their tax policy, and encouraging them to seek the Fair Tax Mark ("FTM") accreditation.

The FTM certification scheme was launched in 2014, and its objective of seeking to "encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place", chimes well with our own tax justice policy.

Up to November 2021, FTM accreditation was only available to UK-headquartered corporates, so this region remained the focus of engagement during the year.
Going forward we will broaden our engagement to include international businesses, where we will encourage implementation of the new FTM International accreditation as well as the GRI framework, which now includes a new Tax-specific standard (GRI207).

As part of our ongoing engagement activity this year, we engaged with UK Property Development Company, St Modwen Properties.

This engagement took place as part of one-on-one meetings with the executive management team. As a direct result of our engagement, in March 2021 they announced an intention to commence the FTM accreditation process during the second half of the year, with an expectation that the process would be completed after the publication of their 2021 Annual report (expected March 2022).

Case Study 11: MJ Gleeson

UK housebuilder MJ Gleeson is one of the longest standing investments in the CFB/Epworth UK equity funds, reflecting a view that it is not only a high quality business from a financial perspective, but also a business leader from an ethical perspective, given its business model is to provide affordable housing to underserved communities. CFB/Epworth have met with the management at least every 6 months for many years, using these meetings to encourage the business to continue improving in all aspects of sustainability performance and reporting alongside its financial performance. This engagement prompted the company to conduct a more formal exercise in 2021, engaging with a wide range of its stakeholders on what its sustainability priorities should be, which CFB/Epworth participated in. This included responding to a survey for the company, followed by a meeting to discuss the results of the survey.

This engagement covered many areas related to ESG stewardship and provided a good opportunity to not only praise the business where it had performed well, but also identify and communicate areas where the business appeared to be a laggard. One of these areas where the business was felt to lag best practice was in its disclosures about its response to the climate crisis. Following this engagement, MJ Gleeson has committed to reporting in-line with TCFD & SASB reporting frameworks this year, has set more ambitious targets for reducing its scope 1 & 2 emissions in its latest Sustainability report, and has embarked on a project with its supply chain to assess and reduce its scope 3 emissions as well.

Another area where the company was challenged was its performance in the area of Biodiversity, which the company had not made reference to in its public disclosures. MJ Gleeson admitted to finding this difficult to promote within its existing business model of developing brownfield land that has often been left overgrown for many years before they are able to build on it (so the developments are inherently negative for biodiversity). CFB/Epworth suggested that MJ Gleeson could look at ways of reducing the damage of its activities on biodiversity, such as working with local wildlife trusts. As a result of this, MJ Gleeson has committed to formulating a strategy to improve its performance in the area of biodiversity, and CFB/Epworth will continue to monitor the improvements in disclosure & performance that the business achieves, engaging further where necessary.

Principle 10

How we participate in collaborative engagement to influence issuers.

Our approach

We actively seek to partner collaborative initiatives with like-minded investors, in particular the Church Investors Group, a collaborative organisation of faith-based investors, but also through other groups of responsible investors in the UK and overseas.

In 2020, we stated...

- 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 have been active partners in the IIGCC climate coalition (formerly known as "Aiming for A") that seeks material risk disclosure from high-impact companies on climate change resilience.

- The CFB and Epworth are signatory participants in a number of investor coalition initiatives that support collaborative action on material ESG (environmental, social and governance) 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

In 2021, we strengthened our reporting by...

- During the reporting year, we participated in COP26 through the collaborative action of the World Council of Churches. The collaboration enabled us to better evaluate our other related collaborations and their alignment with the COP Accords.

Case Study 12 : Anglo American and Climate Action 100+

In 2018, the CFB/Epworth joined the Climate Action 100+ (CA100+), an engagement run in part by the Institutional Investors Group on Climate Change, to which CFB/Epworth is a signatory.

Given the previous engagement, and concern around transition to a low carbon economy, CFB/Epworth chose to co-lead on Anglo American. The purpose of the engagement was to deeper understand the companies approach to the climate emergency, and to encourage it to take further actions to mitigate climate risk.

In the year under review, the CFB/Epworth met with representatives of Anglo American multiple times, in both a small and large investor group setting. CFB/Epworth also made a statement at the company AGM as part of CA100+.

We were delighted that the most recent climate report from the company outlined an ambition to reduce its scope 3 emissions by 50% by 2040. The CFB/Epworth are now working with Anglo to put this report to a shareholder vote so that it becomes policy that the company can be held to account on.

Case Study 13 : Modern slavery engagement through an investor coalition

In late 2019, the CFB and Epworth became signatories to the coalition investor statement of the 'Find It, Fix It, Prevent It' campaign, which is based on the belief that modern slavery is present in most if not all supply chains. Engagements began in 2020, with the hospitality sector being the first target sector due to generally having unskilled/low paid/migrant labour both in its immediate supply chain and in subsequent tiers. This topic resonates with the policy CFB/Epworth has on human rights and conflict.

Continuing the engagement that started in 2020, CFB/Epworth met with representatives from Intercontinental Hotels Group (IHG) to discuss recent work it has been doing to strengthen its human rights due diligence in its recruitment practices, including implementing a checklist to help drive responsible recruitment practices. The CFB/Epworth was part of a small investor group that asked questions and probed the company's approach to modern slavery prevention.

Did you know?

In February 2021, we co-filed a resolution that asked Tesco to set and report on a target for growing the proportion of its sales from healthier products.

As a result of the resolution Tesco made commitments to increase the share of healthy products.

Principle 11

How we escalate stewardship activities to influence issuers.

Our approach

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

In 2020, we stated...

- 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, in order 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 meetings, with JACEI 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 will advise us on appropriate next steps.

In 2021, we strengthened our reporting by...

- In the reporting year we reviewed our process for escalation. Our internal mechanism for escalating engagement now links to the newly adopted media strategy.

- Given our increased exposure in the media, we have become aware of the ethical challenges that the sector faces. As such, we will be enhancing our policy on the media sector.

In 2021, we demonstrated our stewardship by...

Case Study 14: Rio Tinto

The CFB/Epworth has launched a new engagement initiative that takes aim at the mining industry and the supply chain of mined products. To underpin the initiative, Epworth has published an extractives policy that will enable us to better engage with mining companies and help in protecting indigenous communities and workers' rights as the world consumes more metals and minerals in pursuit of overall carbon reduction.

Enabled by this policy, the CFB/Epworth was able to confidently respond to a report published by the mining company, Rio Tinto. Rio's report outlined systemic workplace toxicity including incidents of criminal harassment, rape, and racism within their company. While we welcomed the efforts of the new leadership at Rio to uncover and address these issues with robustness and transparency, the findings demonstrate systemic problems that not only present a material risk to shareholder value but, and more importantly, demonstrate that Rio Tinto employees are exposed to wholly unacceptable conduct and unsafe working conditions.

The CFB/Epworth engaged with the company to question the underlying issues within Rio's culture. After a lacklustre response from Rio's investor relations team, the CFB/Epworth voiced our concerns to the media. Epworth featured in a February 2021 edition of the Sunday Times online as one of the only institutional investors willing to make serious comment on Rio's workplace toxicity.

This press exposure leveraged high-level meetings for our ethics team with Rio's management and has given the CFB/Epworth the opportunity to interrogate policy at the company. On behalf our clients' interests, the CFB/Epworth remains in constructive dialogue with Rio Tinto as the company shapes its response to the report.

Principle 12

How we actively exercise their rights and responsibilities.

Our approach

The CFB and 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 2020, we voted at 97% of meetings cover companies that we hold across all geographic regions. Unvoted meetings were due to share blocking or operational barriers.

In 2020, we stated...

- 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 the £20bn Church Investors Group. 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 on the website (see link below), 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.

- Other occasions where we may vote against management include shareholder resolutions that are not backed by the board. One example of this is at Barclays AGM in 2020, where we co-filed and voted for a shareholder resolution which was not backed by the board related to climate change. It was supported by approximately a quarter of investors.

- Certain voting principles are geographically specific, most of these are around ratcheting expectations in the UK on ESG related issues.

- The CFB and Epworth actively votes directly held shares. Any controversial, or off template votes are discussed within the team. 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 polices, 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 that some of our key faith relationships have observer status on JACEI and therefore see the formulation of all polices, 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.

In 2021, we strengthened our reporting by…

- The increasing company focus on the climate emergency, and the emergence of 'say on climate' votes has led to a need for a house view on climate votes. The CFB/Epworth discussed disclosure criteria that would lead to a positive vote, or conversely a negative vote. This will enable us in future periods to report more transparently to clients on this matter.

In 2021, we demonstrated our stewardship by…

Case Study 15: Brooks Macdonald

Brooks Macdonald is a relatively small financial services company in which the CFB/Epworth has had a reasonably significant shareholding since 2017 through its UK equity funds. The company was previously regarded as a relative laggard in certain aspects of its reporting on Sustainability issues, which prompted CFB/Epworth to engage with the business through its regular semi-annual meeting with management, and through voting of the shareholding.

An example of this was voting against the remuneration report & chair of the remuneration committee in 2020 & 2021, partly in response to the variable remuneration schemes not including non-financial targets for management. This led to specific dialogue with the company on the issue in writing, and recently Brooks Macdonald indicated that it intends to include new non-financial targets relating to diversity and environmental performance as 10% of its future management remuneration incentive.

More broadly, in late 2021 Brooks Macdonald published a new CSR report, which highlighted new initiatives in several areas to improve the way it operates for all stakeholders. CFB/Epworth will continue to engage with the business to see further improvements in the way Brooks Macdonald operates and reports on ESG issues.

WANT TO LEARN MORE?

Get in touch.

Email

enquiries@epworthinvestment.co.uk

Phone

020 7496 3636

Post

9 Bonhill St, London EC2A 4PE

Central Finance Board
of the Methodist Church

Epworth
Investing with Christian ethics

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."