

Quarterly Review

Q4
2023

Summary of financial
markets, our market outlook
and responsible investment
review for the quarter



Risk Warning

Epworth Investment Funds for Charities

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Epworth Cash Plus Fund for Charities

The monthly interest distribution rate will fluctuate and past performance is no guarantee of future returns. To help manage the risk of capital losses, the Fund spreads its investments across a wide range of financial institutions, however, the possibility of capital loss does exist. A charge for same day transfers applies (currently £12). We reserve the right to require 7 days' notice of withdrawals in exceptional circumstances. Full details and terms, including the Scheme Particulars, can be found at www.epworthinvestment.co.uk. The Epworth Cash Plus Fund for Charities is exempt from the Financial Services and Markets Act 2000 and depositors are not eligible for the Statutory Investors Compensation Scheme or the services of Financial Services Ombudsman. The Manager is however, duly authorised under the Financial Services and Markets Act 2000. Epworth Investment Management Limited (Epworth) is authorised and regulated by the Financial Conduct Authority (registered number 175451). Incorporated in England and Wales. Registered number 3052894. Registered office 9 Bonhill Street, London EC2A 4PE.

Review of Quarter

Economic overview

The last quarter of 2023 began with a renewed outbreak of war in the Middle East, ignited by the 7th October terrorist attacks in Israel. While the war is still concentrated in Gaza, the threat of the conflict spilling over into other territories remains. The initial shock of these events triggered a modest spike in commodity prices and weighed on major equity and bond markets in October, though these quickly unwound in the following months as efforts made by The US and other countries to avoid the conflict spreading proved successful.

The outlook for global monetary policy soon returned to the centre of investor sentiment, with economic data in November & December suggesting that inflation was falling faster than anticipated, and that economic growth was slowing but still showing resilience in the face of significantly higher interest rates. PMI data in the UK & Europe remained in contractionary territory, but began to show signs of potentially bottoming out. For the UK, inflation data throughout the quarter continued to suggest the rise in the prices of goods and services is slowing faster than expected. That being said, inflation is still not at the 2% target and the country is still a laggard relative to other developed economies.

The United States, which massively outperformed other major economies earlier in the year, started to see leading economic indicators suggest a more pronounced slowdown may finally be occurring. This, along with slower than expected inflation, prompted the Federal Reserve to indicate it does not expect to make further hikes to interest rates, and may even consider interest rate cuts in 2024. This shift in tone enabled US equity indices to rally back towards all-time highs towards the end of the quarter, whilst the 10 year US Treasury yield, which moves inversely to value and

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had breached 5% in October for the first time since 2007, ended the year well below 4%. Indeed most assets are, at some level, sensitive to the level of US interest rates, so strong rallies were seen across many markets as investors reacted positively to the prospect of cheaper borrowing rates in future than previously expected. This ensured a good quarter of portfolio returns for investors, after a tough couple of years.

Market Outlook

The interest rate outlook appears much brighter for investors in 2024 than it did a few months ago, with lower interest rate forecasts making it possible for many beaten up assets over the last two years to recover some of their losses. However, a slowing global economy makes it tricky to judge a fair value for growth-dependant assets, and therefore a challenging investment outlook. In addition, 2024 will be a year of election risks, with more than half of the world's population due to head to the polls which could see some seismic shifts in geo-political dynamics at an already sensitive time for international relations.

At the asset level at Epworth, we continue to prefer adding to bond and cash holdings over equities, given the heightened economic risks noted. However, within equities we are becoming more optimistic on pockets of the market, particularly smaller companies and non-US markets, where valuations appear much cheaper relative to history and suggest growth risks might be somewhat priced in. Epworth's equity funds have been assessing these opportunities and adding conviction positions through the year.

Beyond traditional assets, lower interest rate expectations are also helpful to property and alternative assets such as gold and private equity, and particularly infrastructure. But not all of these assets will perform equally if economic growth continues to deteriorate, meaning we remain relatively cautious on the property market, and selective in alternatives.

**INTEREST RATE
OUTLOOK
APPEARS MORE
POSITIVE**

**2024 WILL BE A
YEAR OF ELECTION
RISKS**

**SMALLER
COMPANIES &
NON US MARKETS
BECOMING MORE
ATTRACTIVE**

The gold, the bad and the ugly

Epworth has long grappled with the ethical dilemmas associated with the precious metals industry. The extraction of these metals entails substantial environmental ramifications, encompassing significant carbon emissions during the mining and refining processes, along with the local ecological degradation resulting from extensive land clearing in pursuit of minute metal quantities. Beyond environmental concerns, the human toll is equally disconcerting, as numerous mines globally resort to exploitative practices such as child or forced labor under perilous conditions. Furthermore, the extraction market targeting precious metals from discarded circuit boards and other waste materials is fraught with similar ethical challenges.



For these reasons, Epworth does not invest in the shares of mining companies focused on precious metals, and has been reluctant to invest in other forms of exposure to these commodities to date. However, there is no doubt that precious metals, particularly gold, can provide compelling investment properties as part of a diversified portfolio. Although gold pays

no dividend, its track record shows it offers little correlation to other major assets, particularly in times of financial or geopolitical shocks, making it an attractive diversifier. Following an extensive research exercise, Epworth recently approved for investment a product providing direct exposure to gold reserves held at the UK's Royal Mint.

Royal Mint is one of the oldest companies in the world, manufacturing UK coins as well as currency for over 30 other nation states. It supports a supply chain of over 800 companies, and is a key member of both the World Gold Council and the London Bullion Market Association. The waste offcuts of gold taken from its coin manufacturing processes are recycled into gold bars, meaning they have just 10% of the carbon footprint of bars manufactured from virgin mined materials.

The key benefit to Epworth of partnering with Royal Mint through this investment is to leverage Royal Mint's status and reputation in the market, to lead the industry on a journey of sustainable initiatives for the precious metals supply chain. It recently became the first sovereign mint to achieve Science Based Target initiative (SBTi) recognition for net

zero targets, aided by recent investment that now allows it to self-generate around 70% of its power needs at its manufacturing facility in South Wales.

Epworth's Multi Asset Fund manager Matthew Jones recently visited the Royal Mint's manufacturing facility to see the recycled gold process first hand, as well as meet with its leadership to discuss its approach to supply chain audit and engagement. Royal Mint has conducted an extensive engagement process this year to push for alignment with its new sustainable sourcing policy, and has successfully got more than 75% of its suppliers signed up so far. Epworth will seek to maintain a dialogue with the RM over the coming years to leverage its influence in the broader precious metals industry, and push for positive environmental and social change.



Epworth adds global bond exposure

All assets that Epworth selects for investment on behalf of its clients undergo stringent due diligence research, scrutinising both their financial quality, and the ethical merits and challenges of each case. For an asset to be approved for investment, it must demonstrate leadership in both. Epworth aims to engage with managers of companies and assets whenever feasible, both during the due diligence process and as an integral part of ongoing monitoring in order to actively challenge and assess their performance. Epworth's experienced investment team conducts its own research into each potential investment, presenting ideas to Epworth's internal Asset Allocation Committee for scrutiny and ultimate approval for investment.

By way of example, Epworth has invested in the UK corporate bond market on behalf of its clients for many years, generating attractive investment returns from high quality businesses in a manner consistent with its authentic responsible investment approach. However, until recently Epworth had not identified a satisfactory strategy that provided exposure to the global corporate bond market in a way that aligns with Epworth's strong ethical position.

While including global corporate bond market coverage has always been a goal within Epworth's diversified asset strategy, the organisation remains steadfast in its commitment to prioritise both financial performance and social responsibility when considering such investments. The global corporate bond market can be challenging to fully access in a cost-effective way, requiring specialised knowledge and resource covering a wide variety of markets & local investment standards across the globe to responsibly navigate.

Epworth's assessment concluded that a diversified portfolio managed by an experienced team was needed to carefully manage the risks of investing in global corporate debt, without eroding potential investment returns. The portfolio required a meticulous approach to assess the moral standing of each issuer, ensuring that the businesses being lent to were not only well-governed leaders in environmental and social performance, but also actively engaging with issuers to ensure they operate for the benefit of all stakeholders.

In our contemporary world, which is in urgent need of transitioning to a cleaner and more efficient energy system while ensuring the well-being of society's most vulnerable, the debt issued by these businesses ideally

should make a positive contribution towards supporting such objectives. The market for labelled debt issuance has experienced rapid growth in recent years. This, coupled with recent market dynamics leading to bonds trading at more attractive levels for investors, has created opportunities for more compelling and responsible strategies in the global corporate bonds sector.



As a result, in November Epworth identified and participated as a launch partner in a new fund covering global corporate debt that passed all of the required due diligence hurdles. This strategy is the Rathbones Greenbank Global Sustainable Bond Fund, with Rathbones keen to have Epworth's involvement in the strategy from launch and offering a significantly discounted management fee. This is evidence of Epworth's flexibility to partner with leaders in the investment world, including potential competitors, to provide optimal investment solutions for charities.

Epworth will regularly review the delivery of this fund, including its promised stewardship coverage, to ensure that it performs in line with expectations. This will include regular meetings with the team at Rathbones.

Ten's Winning Frame

Ten Entertainment Group is the second-largest ten-pin bowling company in the UK, operating across over 50 centres under the Tenpin brand. It also offers further entertainment such as laser arenas, the UK's first Hyperbowling experience, a range of escape rooms, karaoke, arcades and tables sports, as well as offering food and drink.

Ten Entertainment was added as a conviction stock in October 2017 to Epworth's UK Equity Funds, due to its attractive growth characteristics and opportunity to leverage digitalisation. This allowed Ten Entertainment to better reach target customers, improve customer experience and generate an online presence. There was also a strong belief that, due to the fragmented nature of the bowling industry in the UK, Ten Entertainment could acquire run-down sites and upgrade them to generate exciting growth opportunities. Furthermore, the business is family-friendly, offering relatively cheap entertainment whilst generating employment for local younger people. As well as this, the valuation of the stock was considered cheap despite a strong management team track record of success and expertise.



Since being added to the UK Equity Funds, the business has performed well and delivered strong growth, leading to a takeover bid for the business in December 2023. This represented a total return on Epworth's holding of around 160% since 2017.

Additionally, Epworth has enjoyed a positive engagement relationship with Ten Entertainment throughout the holding period, regularly meeting with senior management to discuss important ethical issues. These included food waste, recycling, employee relations and carbon emissions, with considerable progress made by the company as a result of these engagements. Notably, Ten Entertainment has changed its energy supplier to ensure 100% renewable energy used across its sites, and the company has also massively improved its rates of recycling waste from its centres. . The company is also targeting net zero carbon emissions for its operations and suppliers by 2030, which will involve installing solar arrays across its sites.

Responsible Investment Review

Mining and Faith

Epworth attended the 10th annual Mining & Faith Reflections Initiative (MFRI) conference, a gathering of senior leaders from the mining industry and faith institutions. This is a unique engagement opportunity only open to faith based organisations such as Epworth, with participants ranging from the chief executive of multi-national mining company BHP Group, through to the Archbishop of Canterbury.



Epworth took the opportunity to congratulate companies such as Anglo American that have responded positively to the efforts of this initiative since its launch, including the notable improvements in mining site safety and company transparency. However, all participants agreed there was much more work to be done to further improve the activities and reputation of the mining industry for all stakeholders, particularly highlighted by the recent cases of human rights abuses of minority groups at mining sites. Epworth used the conference to put pressure on companies to turn their positive dialogue into further action, noting their vital importance to the energy transition, and the unique operational challenges inherent in this sector.

Property Income Trust for Charities

Epworth met with the management of PITCH during the quarter, a fund that continues to be utilised to provide exposure to unlisted commercial property assets for some clients. As well as discussing portfolio changes, performance and the investment outlook, Epworth took the opportunity to learn more about how the fund has improved its client data collection in order to better report its progress against net zero emission targets. This progress on has helped the fund move into the top 5 of the Global Real Estate Sustainability Benchmark, out of a universe of over 100 funds. Epworth is keen to see that progress continue, and took the opportunity to question the fund managers on their approach to material sourcing in their building renovations, particularly focusing on the human rights issues prevalent in the supply chain for solar panels.

Epworth Voting Summary

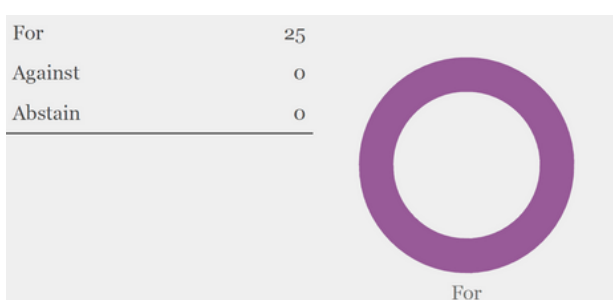
Remuneration reports



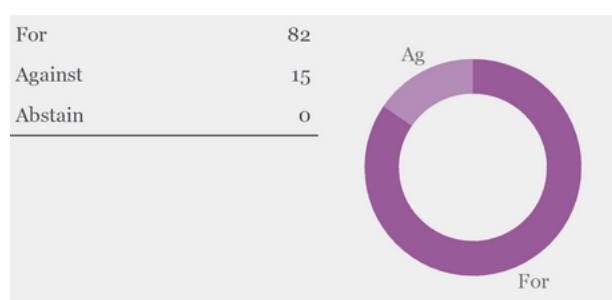
Executive pay scheme



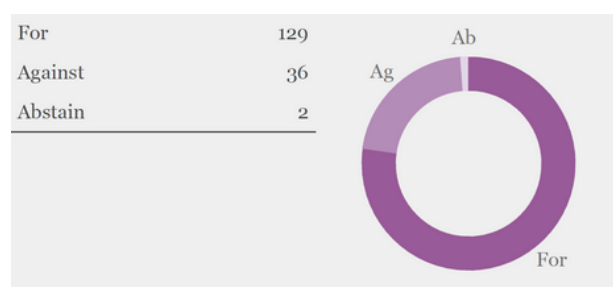
Auditors appointment



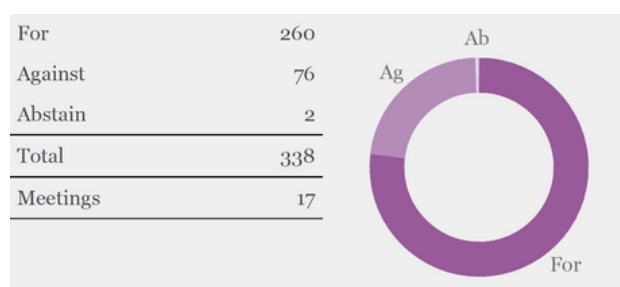
Other



Directors



Total votes



Epworth Investment Management adheres to the principle that one of the privileges of owning shares in a company is the right to vote on issues submitted to a shareholder vote. Voting is carried out at all UK and global company meetings, in which Epworth invests, in line with a collaborative Church Investors Group (CIG) policy which is reviewed annually. The voting template is implemented by the CIG's service provider, ISS (Institutional Shareholder Services). The latest policy for voting can be found [on the Epworth website](#). The above charts detail the number of votes we have participated in during the last quarter as well as how we have voted.

Epworth

Investing with Christian ethics

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