

**Principle 1: Purpose, strategy and culture** - *Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

- 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.
- We have a culture which centres upon a set of shared values, specifically, a strong belief in applying Christian values to investments. We apply these Christian values within our own organisation, providing care and support to our employees, embracing diversity, and providing opportunities for all employees to develop in their roles.
- The CFB is a “not for profit organisation”. Our fund management fees to the Church are set at a level to cover our costs. Our wholly owned subsidiary, Epworth, has a standard regulated, incorporated structure. However, any excess profits generated by Epworth will be paid to the CFB by way of dividends and initially used to lower the fees paid by the Church. If further excess profit accrues, it will be applied towards the mission of the Church. Thus, our corporate culture aligns with those of our charity clients.
- 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 policies and position statements 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
  - 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](http://www.cfbmethodistchurch.org.uk/ethics)**, **[www.epworthinvestment.co.uk/ethical-investment](http://www.epworthinvestment.co.uk/ethical-investment)**
  
- We have a strong belief that the Christian values that we apply to our investments, and the pressure that 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 the coming year, our ethical priorities are set out below:
  - 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.
  - Build relationships with investee companies to encourage dialogue on ethical issues and be a Christian witness in the investment community.
  - Broaden 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.
  - Further reviews of the alignment of the oil & gas sector with the aims of the Paris Accord.
  - Engagement with our investee companies on tax justice, with an emphasis on improving tax reporting and achievement of the Fair Tax Mark accreditation.
  - A review of our policy on investment in companies that engage in activities in the occupied territories in Israel/Palestine.
  - An update to our media policy for recent developments in social media
  - Seek continuous improvement across external reporting requirements under frameworks such as the PRI and the Stewardship Code.

**Principle 2: Governance, resources and incentives** - *Signatories' governance, resources and incentives support stewardship.*

- 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.
- 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, Trucost 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.
- 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 CFB UK Equity Fund 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.

**Principle 3: Conflicts of interest** - *Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.*

- Our policy regarding potential conflicts of interest and Treating Customers Fairly (TCF) in the conduct of investment business forms a key part of our overall compliance regime. The CFB and Epworth nurtures a culture of openness and honesty, where the customer is put first. We aim to comply with not just the letter of the rules, but the spirit as well, and so avoid conflicts of interest.
- Epworth is regulated by the Financial Conduct Authority (“FCA”). The regulatory Compliance Manual retains a full conflicts of interest policy and 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: 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.

- 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.

## **Case study: 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.

- 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: Promoting well-functioning markets** - *Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.*

- 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 clients money, and curb excessive risk-taking.
- 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.

**Principle 5: Review and assurance** - *Signatories review their policies, assure their processes and assess the effectiveness of their activities.*

- The CFB and Epworth have policies that apply specifically to different teams and levels of authority within the organisation, as well as blanket policies that apply to all individuals. Furthermore, 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.
- 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.

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

An area of the CFB's stewardship that has received greatest challenge is our investment and engagement policy in the oil and gas sector. The CFB has designed over 20 tests to assess the alignment of companies within this sector with the well below 2-degree climate change objective of the Paris Accord. Given the multi-decade time frame of the Accord, these tests include an element of subjectivity and rely upon government and individual behaviours that are outside the controls of the investee companies. The CFB and Epworth have disinvested from much of this sector as a result of this work – determining that certain companies are not aligned with the Paris Accord. For the remaining companies, the CFB has had an objective of engagement, largely through shareholder groups, to bring about changes in governance, investment in renewables, reduction of capital expenditure on upstream operations, reductions in direct emissions, and alignment of executive benefits with emissions targets. However, for many interested parties the value of this engagement is not outweighed by the stewardship concerns of investment in the producers of fuels that lead to significant GHG emissions. This is an area where the strains of engagement versus disinvestment are stretched and where only time will tell us which is the correct approach for the best stewardship outcomes.

- The CFB ethical position papers and policies which govern its investments are all recommended to the CFB by JACEI. JACEI periodically 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

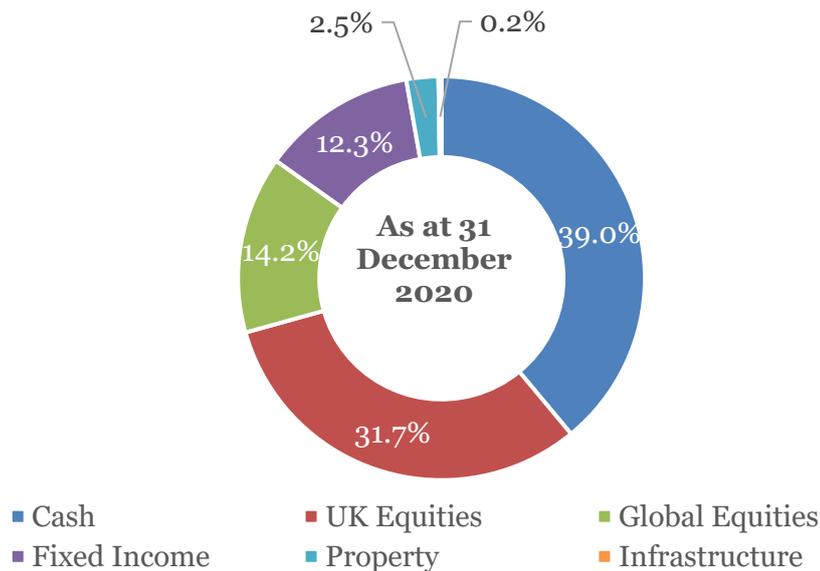
specific policies, such as in the case of climate change, where its first policy in 2009 was a general policy, with following policies related to specifically exposed sectors.

- 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.

**Principle 6: Client and beneficiary needs** - Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

- As at 31 December the breakdown of our assets under management is shown in the pie chart below:

**Breakdown of combined CFB and Epworth AUM**



- 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).
- 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.

### **Case study: Fossil Free forum leading to design of new fund**

In the recent past, we have focussed much of our stewardship work on the acceptability, or otherwise, of investment into fossil fuel companies. The Methodist Church has disinvested from many oil and gas companies but not all. We learnt that some of our clients wanted to disinvest from all fossil fuel companies and invest positively for stewardship purposes. We therefore held a client forum to which all clients were invited to discuss their requirements for a “fossil fuel free” fund. From this came the design of Epworth’s Climate Stewardship Fund. This fund not only excludes fossil fuel companies, but also their suppliers and any company with a high GHG footprint. The Fund also invests in companies that will aid the transition to a carbon free world and includes, in its explicit targets, a portfolio carbon footprint significantly below the fund’s benchmark. Subsequent to the launch of the fund in 2019 we have seen many clients switch their UK equity exposure into the Climate Stewardship Fund.

- 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.

**Principle 7: Stewardship, investment and ESG integration** - *Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*

- 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.
- 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.

**Principle 8 Monitoring managers and service providers** - *Signatories monitor and hold to account managers and/or service providers.*

- 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.
- 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.

**Case study: Concern over provider ethical performance**

The CFB and Epworth use HSBC for custodian, banking, and fund administration services. We are also investors in the bank. HSBC has strong tensions between its North American/European headquarters, its client base, and its core revenue base in Asia. This has seen HSBC overtly support the new security laws in Hong Kong, whilst at the same time writing to customers in compliance with an executive order from President Trump prohibiting them from investing in “Chinese Communist military companies”. The CFB collaborated with the Church in correspondence to the CEO of HSBC, raising concerns about their support for the new security laws in China.

**Principle 9: Engagement** - *Signatories engage with issuers to maintain or enhance the value of assets.*

- 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.
- 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 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.

### **Case study: Fair Tax Mark**

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. It is currently only applicable to companies based in the UK, though there are consultations looking at developing some form of international accreditation that can account for the different tax regimes in various territories.

The first company that we chose to engage with on the FTM was the UK housebuilder MJ Gleeson – this engagement took place as part of a face-to-face meeting with the executive management team. As a direct result of our engagement, MJ Gleeson achieved the FTM accreditation in September 2020. This success has led us to recently write to 22 other UK-based companies in which we are shareholders, asking each to consider whether it could also sign up to the accreditation, following the example set by MJ Gleeson.

**Case study: Climate change – engagement with Cranswick**

The CFB has a climate change policy recommended to it by JACEI, which seeks to create and manage portfolios with a relatively low and measurably declining carbon footprint. Following the results of the CFB 2019 carbon footprint which noted food producers as having a high impact on the score due to supply chain emissions, the CFB decided to engage with Cranswick.

Cranswick is a UK listed food producer. The objectives for the engagement were: to assess how much influence the company had over its supply chain emissions; to learn the extent of the actions it was taking to reduce the emissions; and to discover any targets in place for emissions reduction. We wrote to the company and they responded fully, satisfying all of the engagement objectives.

Through the engagement, we learnt more about the company's strategy for reducing emissions, and identified areas with which we can carry out further engagement with Cranswick and with other food producers.

**Principle 10: Collaboration** - Signatories, where necessary, participate in collaborative engagement to influence issuers.

- 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.
- 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

**Case study: ShareAction engagement on healthy eating and childhood obesity**

In 2005 and 2009 respectively, the CFB and Epworth, under the guidance of JACEI, formed responsible investment policies on ‘Health and Nutrition within the Food and Beverages Industry’ and ‘Children’s Issues’. These policies outline the increased need for proactive engagement with companies that have material exposures in these areas.

The CFB and Epworth collaboratively engaged with Tesco on the topic of healthy eating and childhood obesity, as part of an investor coalition brought together by ShareAction under the 'Healthy Markets' initiative to tackle childhood obesity. In 2019 as part of the coalition, the CFB and Epworth began actively engaging with Tesco, which as the UK's largest supermarket holds key responsibility for tackling childhood obesity. Furthermore, ShareAction is well-known and respected for bringing together asset manager influence in its responsible investment engagements, and therefore this collaborative opportunity made strategic sense from an ethical engagement standpoint for the CFB and Epworth.

Collaborative engagement led to a resolution which Epworth co-filed, calling for Tesco to publish its percentage of sales from healthy foods, a target for this metric, and a nutrition strategy that would help enable the company to meet this target. Engagement came to fruition, with Tesco publishing its percentage of healthy foods sold in 2019 (58%), a target of 65% by 2025, and a nutrition strategy to enable it to reach this target. Tesco's new strategy set forth measures including a major new program of reformulation to improve the health profile of products, changes to promotions and pricing to remove barriers to buying healthy food, and a further expansion of its market-leading plant-based ranges. This result exhibits the power of active collaborative engagement, and with the investor coalition combining effectively, and regular meetings with Tesco paying off. Further collaborative engagement in this area will likely focus on large food manufacturers and addressing their key role in tackling childhood obesity.

### **Case study: Modern Slavery engagement through an investor coalition**

Our Human Rights and Conflict policy was developed in 2013, under the guidance of JACEI. It draws upon the UN Guiding Principles on Business and Human Rights, and calls on the CFB and Epworth to seek open dialogue and engagement with companies on human rights policy and performance.

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.

The CFB and Epworth, along with other investors, held meetings with Intercontinental Hotels Group and Compass Group in the fourth quarter of 2020, leading on the engagement with Compass Group. These meetings gave the opportunity to ask frank questions relating to areas such as business models, areas of risk and methods of mitigation as well as employment practices such as the payment of recruitment fees. From the meetings, companies gained the understanding that investors are committed to preventing modern slavery and seeing remediation for victims. There was also a push for more transparency in modern slavery statements.

Although there is a long road ahead in terms of solving modern slavery, and no incidences have yet been found by these companies, we continue to work on a collaborative basis to implement our Human Rights and Conflict policy.

**Principle 11: Escalation** - *Signatories, where necessary, escalate stewardship activities to influence issuers.*

- We have adopted clear practices and processes for the escalation of engagement oversight, depending on the nature of the issue.
- As responsible investors we seek to meet and engage with company management in an open and constructive manner, and on a face-to-face basis, 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 goes 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. JACEI is currently reviewing a proposal that engagement with companies should be within a defined time limit, with action such as disinvestment a consequence of failure to see impactful change within that time frame. Consideration is being given to both appropriate time frames and the desire for flexibility to acknowledge differing circumstances.

### **Case study – Anglo American**

We began a programme of engagement with Anglo American in 2011, meeting frequently with senior ESG managers to discuss the company's approach to reducing its direct and indirect carbon emissions. In 2015, we took a decision to escalate the engagement, in collaboration with other investors in the "Aiming for A" coalition, meeting with the Chairman to encourage the company to reduce its thermal coal production activities.

This escalated engagement approach has been maintained through being a co-lead on the engagement with Anglo American carried out through the Climate Action 100+

engagement group. In addition to meetings with Senior Management, the CFB and Epworth joined with the other co-lead in making statements at the Anglo American AGMs in 2019 and 2020.

Following our escalated engagement approach, we have been encouraged to see the company committing to achieve scope 1 and 2 carbon neutrality across its operations by 2040, and continue to push the company to set goals relating to scope 3 emissions.

Details of the written questions that we submitted to the 2020 AGM, and the company's response to those questions, can be viewed on Anglo American's website (<https://www.angloamerican.com/investors/shareholder-information/agm/agm2020/agm-2020-anglo-american-response-to-shareholder-questions>).

**Principle 12: Exercising rights and responsibilities** - *Signatories actively exercise their rights and responsibilities.*

- 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.
- 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, 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 policies, including voting and engagement activity, both at the commencement of a new relationship and on a regular basis during it. It should be noted that some of our key faith relationships have observer status on JACEI and therefore see the formulation of all policies, including voting templates, and have an opportunity to comment on them.
- Our summary proxy voting reports are published electronically each quarter, whilst a full voting record is available on request.
- Voting rights for securities held within segregated client portfolios are voted in accordance with the CIG common voting policy.
- In accordance with CIG common voting policy, the CFB and Epworth do not arrange stock lending and recall.



**David Palmer**  
**Chief Executive Officer**  
**31 March 2021**