

Implementation Statement, covering the Pension and Assurance Scheme for Lay Employees of the Methodist Church Scheme Year from 1 September 2022 to 31 August 2023

The Trustee of the Pension and Assurance Scheme for Lay Employees of the Methodist Church (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Scheme Year. This is provided in Section 1 below.

The IS is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

In preparing the Statement, the Trustee has had regard to the [guidance](#) on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

1. Introduction – Last review of the voting and engagement policies

The voting and engagement policies in the SIP were reviewed during the Scheme Year in July 2023. The updates made reflect additional wording on the Trustee’s stewardship priorities and practices in relation to voting and engagement, in addition to amended wording on the Trustee’s beliefs about Environmental, Social and Governance (ESG) factors. As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the Scheme Year.

The Trustee has recently formed an ESG Sub-Committee to oversee more responsible investment, voting and engagement more closely. This Sub-Committee will act as a forum for formation of policies, oversight and engaging with managers, where appropriate.

2. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. Though the Scheme no longer holds equity investments at 31 August 2023, it held equities with Epworth over part of the year to 31 August 2023, and thus reports on these holdings in this IS. These policies are:

Epworth:

- Epworth votes according to a template it agrees and helps construct each year, as members of the Church Investors Group (CIG). This template is available to clients, and Epworth reports on its implementation regularly to the Trustee. In future the intention is that reporting will be through the Trustee’s new ESG Sub-Committee.
- The CIG template is implemented by Institutional Shareholder Services (ISS).

However, the Trustee takes ownership of the Scheme’s stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Scheme’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement and to financially material ESG considerations (including climate change).

Following the introduction of DWP’s guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. The Trustee discussed and agreed stewardship priorities for the Scheme, which are:

1. **(Climate emergency) A Just Transition for All**
Corresponding UN SDGs: 8 (Decent work and economic growth); 11 (Sustainable cities and communities); 12 (Responsible consumption and production); 13 (Climate action)
2. **Quality Living for All**
Corresponding UN SDGs: 2 (Zero hunger); 3 (Good health and wellbeing); 12 (Responsible consumption and production)
3. **(Worker's rights) Safe Work for All.**
Corresponding UN SDGs: 5 (Gender equality); 8 (Decent work and economic growth); 10 (Reduced inequalities)

These priorities were selected noting the results of a Priority Matrix Survey, where constituents of the Methodist Church were contacted on their ethical priorities before the results were overlayed on the investment exposures to assess scope for impact. A matrix of priority and scope for impact was then created to guide the prioritisation of issues. Each stewardship priority was also associated with a selection of the UN's Sustainable Development Goals (SDGs) in order to make communication of the priorities to third parties more straight forward. The Trustee has communicated its priorities to each of its managers.

The Trustee regularly invites the Scheme's investment managers to present at Joint Investment Committee ("JIC") meetings.

In Q1 2023, AXA presented to the JIC to discuss its improved ESG capabilities and climate objectives in relation to the Scheme's pooled corporate bond portfolio with the manager. AXA explained how portfolio companies are increasingly required to set a science-based target as part of their pledge to achieve net zero and the Trustee's approach to excluding certain investments from the investable universe was discussed.

The Methodist Church Joint Advisory Committee on the Ethics of Investment ("JACEI") performed an independent review of the Epworth investments managed by the Central Finance Board of the Methodist Church ("CFB"), covering their voting and engagement activities. This review confirmed that "The Committee judges that the CFB (Epworth) has managed the funds under its control in support of an ethical stance which is in accordance with the aims of the Methodist Church".

The JIC also reviewed reports from its managers on voting and engagement activities undertaken on its behalf.

The Trustee is supportive of the UK Stewardship Code. All of the Scheme's managers are also signatories of the Code.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements. For instance, moving forward the new ESG Sub-Committee will act as a forum for oversight and engaging with managers, where appropriate.

3. Description of voting behaviour during the Scheme Year

All the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year. However, the Trustee monitors managers' voting and engagement behaviour on an regularly and challenges managers where their activity has not been in line with the Trustee's expectations.

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance, on the Scheme's funds that hold equities as follows:

- CFB UK Equity Fund; and
- CFB Global Equity Fund (formerly the CFB Overseas Fund)

In addition, the Trustee contacted the Scheme's other asset managers that do not hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the Year. However, the property (now disinvested), corporate bond and LDI managers confirmed that no such opportunities were available. The Trustee did however

ask for examples of significant engagement with companies which these managers may have had over the Year, these are detailed below.

3.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place.

Below is a description of Epworth Investment Management Limited voting process (further detail is available on the Epworth website [here](#)):

- Epworth support the Principles set out in the UK Corporate Governance Code 1 (as revised) and the UK Stewardship Code 2. Epworth vote proxies in the UK and Europe in accordance with these Codes and in keeping with the overarching objectives set out in their Policy Statement.
- Epworth are a founding member of the CIG proxy voting coalition that has adopted a common voting template for its supporting members. These members of the CIG seek to promote best practice standards of corporate governance at investee companies by leveraging their combined voting rights in a collective approach.
- The voting template that governs how the CIG coalition votes at each company meeting is updated and refreshed annually. The template is administered by ISS 3 on a global basis, executing ballots in a timely way so as to register the voting intentions of CIG members by the due deadline.
- In keeping with commitments under the UK Stewardship Code, Epworth publish a quarterly summary of voting activity which is available on their website; a full report of votes registered at each investee meeting in the UK and Europe, is available on request.

3.2 Summary of voting behaviour

A summary of voting behaviour over the Scheme Year is provided in the table below.

	Fund 1	Fund 2
Manager name	Epworth Investment Management Limited	Epworth Investment Management Limited
Fund name	CFB UK Equity Fund	CFB Global Equity Fund
Total size of fund at end of the Scheme Year	£56.3m	£48.3m
Value of Scheme assets at end of the Scheme Year (£ of total assets)	0	0
Number of equity holdings at end of the Scheme Year	70	208
Number of meetings eligible to vote	71	228
Number of resolutions eligible to vote	1,405	3,742
% of resolutions voted	100%	99%
Of the resolutions on which voted, % voted with management	89%	75%

Of the resolutions on which voted, % voted against management	10%	24%
Of the resolutions on which voted, % abstained from voting	1%	0%
Of the meetings in which the manager voted, % with at least one vote against management	75%	86%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	N/A	N/A

3.3 Most significant votes

Commentary on the most significant votes over the Scheme Year, is set out below.

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period.

Instead, the Trustee has retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria¹ for creating this shortlist. Going forward, by informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

The Trustee has interpreted "significant votes" to mean those that align with the Trustee's stewardship priorities.

The Trustee has reported on two of these significant votes per fund (where possible) as the most significant votes. For the CFB Global Equity Fund, only one vote was included as all other votes provided were after the Scheme made a full disinvestment from the fund. If members wish to obtain more investment manager voting information, this is available upon request from the Trustee.

Epworth Investment Management Limited, CFB UK Equity Fund

Berkeley Group Holdings Plc, 6 September 2022

- **Summary of resolution:** Approve Remuneration Report.
- **Relevant stewardship priority:** (Worker's rights) Safe Work for All.
- **Approx size of the holding at the date of the vote:** 1.25%
- **Why this vote is considered to be most significant:** Voting action was aligned with Trustee priorities on (Worker's rights) Safe Work for All.
- **Vote:** Against
- **Rationale:** Remuneration schemes should not breach local good practice, concerns over multiples of salary.
- **Was the vote communicated to the company ahead of the vote:** Yes.
- **Outcome of the vote and next steps:** For resolution. Epworth Investment Management Limited will continue to vote in line with its policy in matters related to this resolution.

Ashtead Group Plc, 6 September 2022

¹ [Vote reporting template for pension scheme implementation statement – Guidance for Trustees \(plsa.co.uk\)](#). Trustees are expected to select "most significant votes" from the long-list of significant votes provided by their investment managers.

- **Summary of resolution:** Approve Remuneration Report
- **Relevant stewardship priority:** (Worker's rights) Safe Work for All.
- **Approx size of the holding at the date of the vote:** 2.50%
- **Why this vote is considered to be most significant:** Voting action was aligned with Trustee priorities on (Worker's rights) Safe Work for All.
- **Vote:** Against
- **Rationale:** Remuneration schemes should not breach local good practice, concerns over multiples of salary.
- **Was the vote communicated to the company ahead of the vote:** Yes.
- **Outcome of the vote and next steps:** For resolution. Epworth Investment Management Limited will continue to vote in line with its policy in matters related to this resolution.

Epworth Investment Management Limited, CFB Global Equity Fund

Cisco Systems, 8 December 2022

- **Summary of resolution:** Report on Tax Transparency Set Forth in the Global Reporting Initiative's Tax Standard.
- **Relevant stewardship priority:** (Worker's rights) Safe Work for All.
- **Approx size of the holding at the date of the vote:** 0.32%
- **Why this vote is considered to be most significant:** Voting action was aligned with to Trustee priorities on (Worker's rights) Safe Work for All.
- **Vote:** For resolution.
- **Rationale:** Proposed tax reporting would align with Epworth's policies (and desire for greater transparency) in this area.
- **Was the vote communicated to the company ahead of the vote:** Yes.
- **Outcome of the vote and next steps:** Against resolution. Epworth Investment Management Limited will continue to vote in line with its policy in matters related to this resolution.

3.4 Engagement in relation to assets other than listed equity

The following comments were provided by the Scheme's asset managers which don't hold listed equities, but invest in assets that had voting opportunities during the Scheme Year:

AXA

- AXA engaged with Unilever on the upcoming evolution of their disclosure on deforestation-free metrics, the shifts in approach to achieve deforestation-free palm oil, and the levers used to reduce land-use change in tea and ice cream. Unilever is trying to alleviate some pressure on palm oil by actively seeking alternatives - although the potential for substitution may be limited – and continues to work on forest regeneration. AXA were satisfied with the discussion, requesting clearer disclosure on tea certification. They plan to follow-up when Unilever is ready to publish its deforestation-free metrics before the next AGM. This aligns with the Trustee stewardship priority on Quality Living for All as it relates to responsible production processes.
- AXA met with Bank of America's (BofA) vice chairman in charge of the sustainability strategy and other representatives to discuss its financing policies, in particular for the coal and unconventional oil & gas (O&G) industries. AXA expects BofA to detail its efforts to fulfil net-zero emissions targets as guided by various organisations, to expand its coal and unconventional O&G financing policies to underwriting activities. They consider that engagement is progressing because Bank of America has established financing policies related to coal and unconventional oil & gas. AXA confirmed that they will continue the discussion with the bank and will keep engaging with BofA, on these issues. This aligns with the Trustee stewardship priority on (Climate emergency) A Just Transition for All.