

### 1. What is the purpose of this document?

The Trustee of the Pension & Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) invests its assets responsibly in delivering its objective to pay the right benefits to members at the right time. When investing the assets the Trustee considers Environmental, Social and Governance factors (including climate change and ethics) including:

- those it views as financially material risks to the Scheme; as well as
- non-financial matters which it believes are of concern to Scheme members and are not expected to result in material financial detriment.

This document sets out the Trustee's policy on responsible investment and how it approaches these factors.

More detail on other aspects of how the Scheme's assets are invested can be found in the Statement of Investment Principles.

The Trustee developed this policy following a collaborative process with its advisors and other stakeholders. Particular regard is given to the ethical investment policies of the Methodist Church, as expressed by the Central Finance Board advised by the Joint Advisory Committee on the Ethics of Investment, a body established by and accountable to the Methodist Conference. All sponsoring employers

of the Scheme are Methodist organisations and the principal employer for the Scheme is the Methodist Council – the permanent body which undertakes ongoing work on behalf of the Methodist Conference. With this in mind, the Trustee expects that members would support similar policies as the Methodist Conference.

### 2. What does this policy apply to?

This policy applies to the way in which the Trustee invests the Scheme's assets. The Trustee considers this policy when appointing managers and selecting pooled funds and expects it to be reflected by the Scheme's investment managers wherever it is possible and practical to do so.

The Trustee recognises that certain elements of responsible investment (for example voting practices) apply more readily to listed equity investments than other types of assets. Nevertheless, the Trustee expects its views on responsible investment to be reflected across the whole portfolio where appropriate and possible, with appropriate adjustments across different asset classes.

### 3. What are the Trustee's core beliefs about responsible investment?

The Trustee is a responsible steward of its assets and, as part of this, considers both the impact of ESG factors, including climate change, on its investments and the impact of its investment practices on society.

The Trustee's core beliefs are that:

- Long-term financial risks to the Scheme include risks relating to ESG factors including unethical practices which could be financially significant over both the short and long term.
- Climate-related risk is a financially material risk over the expected time horizon of the Scheme and the political and transitional risks involved in addressing climate change are likely to impact the value of the Scheme's assets.
- Well run companies, which consider their approach to a range of risks (including ESG factors, including ethical practices), may provide superior returns over the long term.

### Terms used in this document

#### Responsible investment

The integration of environmental, social and corporate governance (ESG) considerations, including climate change and ethics, into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance or that are of concern to members where it is not expected to be materially financially detrimental.

#### ESG factors

Environmental, Social and Governance factors, including climate change and ethics, could impact the value of an investment. The broad areas covered by ESG factors are as follows:

- ❖ **Environment:** focus on sustainability, pollution and waste
- ❖ **Social:** focus on human rights, workforce diversity, employee welfare and the local community
- ❖ **Governance:** focus on management structure, business ethics, employee relations, employee compensation

- Consideration of ESG factors (including climate change and ethics) provides both risks and opportunities to the Scheme.

The Trustee also considers a range of factors which it considers to be non-financial matters (in that its consideration of these factors is not motivated by financial risk) when deciding how the Scheme's assets should be invested. The Trustee believes these factors are also of concern to Scheme members and does not expect taking account of these factors to pose a risk of material financial detriment to the assets of the Scheme. Where exposure is deemed material, assets exposed to the following factors are excluded:

- Nuclear weapons
- Cluster munitions

Where exposure is deemed material, the following factors are considered strong grounds for exclusion from investment:

- Alcohol
- Tobacco
- Gambling
- Pornography
- Arms and firms supplying military and security services

Where adverse exposure is deemed material, the following factors are considered grounds for engagement and possible exclusion:

- Human rights (including caste discrimination)
- Children's issues
- Farm animal welfare
- Health and nutrition within the food and beverages industry
- Prison management
- Violence in media
- Issues related to Israel & Palestine

#### **4. How are the Trustee's views on responsible investment implemented?**

Investment of the Scheme's assets is delegated to the Scheme's investment managers, meaning that the Trustee cannot directly implement certain elements of its responsible investment policy. Nevertheless, the Trustee expects its investment managers, in particular Epworth Investment Management Limited (Epworth) which manages the Scheme's listed equity holdings, to consider ESG factors (including climate change) as an integral part of their investment processes.

As part of its responsible approach to investment, Epworth engages with the companies in which the Scheme invests via the funds managed by Epworth on matters including their sustainability, financial strength, ethical practices and relevant environmental, social and governance issues as set out above. The Trustee expects the Scheme's other managers to engage constructively with relevant parties on such issues, though it accepts that their approaches may not align as precisely with the ethical views of the Methodist Church.

#### **5. Does the Trustee specifically exclude investments in certain industries or asset classes?**

The Trustee carefully considers this question from time to time in light of its legal obligation to invest in the beneficiaries' best financial interests. Its current position is not to directly exclude investment in any specific industries or asset classes on the basis of ESG factors (including climate change and ethics) alone. Instead decisions on which investments to exclude are delegated to the investment managers. How the principles set out in this policy are applied by the Scheme's investment managers is set out in Section 7.

The Trustee also actively encourages its managers to invest responsibly and consider relevant factors when deciding both:

- whether to invest in particular companies and other opportunities, and also
- whether to disinvest from companies where it feels that there has been insufficient engagement or response from management on relevant factors in this policy.

The Trustee does not rule out investing in any particular asset class on ESG grounds. However, the Trustee will consider ESG risk factors when taking asset allocation decisions and when considering an investment in any new fund.

## **6. What is the Trustee's policy on engagement and active ownership?**

There are various ways to engage with investee companies, including discussions with senior management and voting on key resolutions when shares are held by the Scheme.

The Trustee delegates decisions about voting and engagement to its investment managers.

All of its publicly-held shares are managed by Epworth, and the Trustee is able to engage with Epworth on its voting policies should it have a strong view on a particular issue. The Trustee also receives regular reports from Epworth on its voting record and discussions with senior management – especially any key votes and actions.

## **7. How are these principles applied by the Scheme's investment managers?**

The Trustee expects its fund managers to take account of ESG factors, including climate-related risks, which it views as financially material considerations. Where this is not the case, the Trustee will engage with the manager and encourage them to improve its practices.

The Trustee would also ideally want the Scheme's managers to take into account those social and ethical factors it views as non-financial factors. However, the Trustee accepts that it may not be possible to find investment funds for all asset classes which take into account all factors which the Trustee consider important, or which exclude all investments which the Trustee would prefer to avoid. In this situation the Trustee adopts a pragmatic approach, seeking to find investment funds in which the allocations to such holdings are not material – with analysis being conducted before any new investment. The Trustee has also engaged Epworth to provide specialist analysis of such investments and could request ongoing monitoring of this type.

The Trustee aims to appoint managers that have appropriate skills and processes to meet the requirements of its responsible investment policy as an explicit part of any process to select a manager/pooled fund.

## **8. How will the Trustee monitor compliance with this policy?**

The Trustee monitors its compliance with this responsible investment policy through the reports it receives regularly from its investment managers by inviting its investment managers to present at meetings of the Joint Investment Committee which oversees both the assets of the Scheme and of the Pension and Assurance Scheme for Lay Employees of the Methodist Church. The Trustee also expects Epworth to proactively raise any issues that Epworth considers material, having regard to the views of the Trustee, on its Responsible Investment Policy.

## **9. What else did the Trustee consider when forming this policy?**

The Trustee recognises that above all it is legally required to invest in the best financial interests of the beneficiaries of the Scheme. Nothing in the policy is intended to conflict with this requirement and the policy was formed in light of this.

## **10. When does the Trustee review this policy?**

The Trustee will review this policy annually and after any material change to relevant legislation or regulatory guidance.