Addendum to the Statement of Investment Principles

For the Methodist Ministers' Pension Scheme

Effective from: 26 September 2024 (approved at Trustee Board Meeting)

This addendum to the Statement of Investment Principles ("SIP") for the Methodist Ministers' Pension Scheme (the "Scheme") has been produced by the Trustee of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme's investment arrangements.

Part 1:
Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.

1. Trustee

Our responsibilities include:

- developing a mutual understanding of investment and risk issues with the employer
- setting the investment strategy, in consultation with the employer
- setting investment policies, including those relating to financially material factors (such as those relating to ESG considerations, including but not limited to climate change) and the exercise of rights and engagement activities in respect of the investments
- likewise formulating a policy in relation to non-financial matters
- reviewing the investment policy as part of any review of the investment strategy
- setting the policy for rebalancing between asset classes
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, engaging with (and, where necessary, replacing) investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended, "the Act")
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP and modifying it as necessary.
- consulting with the employer when reviewing the SIP.

We have delegated consideration of certain investment matters to the Joint Investment Committee, the role of which is to advise us on investment matters. Any decisions remain our responsibility.

2. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation
- taking account of financially material considerations (including climate change, net zero alignment and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken and progress on net zero alignment over time
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- advising on and monitoring liability hedging and collateral management
- assisting us with reviews of this SIP.

4. Fee structures

We recognise that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. We have agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and we consider them to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme. However, we will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

We are satisfied that, taking into account the external expertise available, there are adequate resources to support our investment responsibilities. We believe that we have sufficient expertise and appropriate training to carry out our role effectively.

It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Joint Investment Committee reviews the performance of the Scheme's investment managers regularly based on reports received from the investment managers and its investment adviser (see Section 5 of the SIP). We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. It is a measure of the extent to which we can tolerate deviation from our long term objectives before attainment of those objectives is seriously impaired. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. We aim is to strike the right balance between risk appetite and risk capacity.

When assessing risk and reviewing the investment strategy, we consider a range of qualitative and quantitative factors, including:

the strength of the employer covenant and how this may change over time.

the agreed journey plan and employer contributions

the Scheme's long-term and shorter-term funding targets

the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged

the Scheme's cash flow and target return requirements

the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring risks

We consider that there are a number of different types of investment risk that are important for the Scheme. These include but are not limited to those set out in the following subsections. We review these risks from time to time based on advice from our advisers. Where the risks are quantifiable, we seek to use relevant tools, reports and metrics to monitor the risks from time to time. Where the risks are not quantifiable we make use of the judgement and experience of our advisers, investment managers and members of the Trustee board, which together, in our view, have sufficient range and breadth of expertise to assess the risks.

Risk of inadequate returns

A key objective is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. We therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been taken into account in setting the investment strategy and is monitored by us on a regular basis.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

The Scheme is subject to credit risk because it invests in bonds and other debt-related assets via pooled funds. The Scheme is also subject to credit risk via its LDI fund that makes use of bonds and derivative instruments including (but not limited to) interest rate and inflation swaps and repurchase agreements.

This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and predominantly investing in bonds that are classified as "investment grade". We believe that this credit risk is suitably managed by the fund managers who regularly review counterparties, diversify their exposure to them, and operate strict collateralisation procedures where relevant.

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate. The Trustee manages the amount of currency risk by investing in pooled funds that hedge some or all of their currency exposure, or implement separate currency hedging arrangements.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and interest rate swaps, via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets provide protection (hedges) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice. We encourage our managers(where practical) to set credible net zero targets for the funds in which we invest to help drive real world emissions reduction and reduce systemic risks relating to climate change. We monitor and engage with our managers on their progress towards net zero alignment.

Other environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors (including climate change and ethics) are sources of risk, which could be financially material over both the short and longer term. These include risks relating to climate change, unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately and we regularly monitor how these risks are being managed in practice.

Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. We are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments and by investing in income generating assets, where appropriate.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Columbia Threadneedle makes use within its LDI fund of derivative and gilt repos contracts and this fund is used to match efficiently the Scheme's liabilities. Counterparty risk also arises from derivatives used in the Scheme's other mandates, such as currency derivatives used for currency hedging within the AXA ABS and credit mandates. Counterparty risk is managed within these mandates through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The Scheme is invested in leveraged LDI arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations which could impact its funding position. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's interest rate and inflation hedging could be reduced, potentially leading to a worsening of the Scheme's funding level.

To mitigate this risk, we have a leverage management plan. This is based on the assets directly available to support the Scheme's LDI arrangements (including

short-dated credit held with the LDI manager) and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. As part of this leverage management plan, we periodically monitor the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

We have also given consideration to what further measures could be taken should the assets referred to in the leverage management plan prove insufficient to support the LDI arrangements, for example, having a sufficient allocation to cash and other liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

Valuation risk

Some of the Scheme's assets (such as listed bonds) can be valued regularly based upon observable market prices. For other assets (such as the Impact investing portfolio with Partners Group), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

longevity risk (risk that members live, on average, longer than expected); and

sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, we believe that we have appropriately addressed and is positioned the Scheme to manage this general risk.

Part 3:
Investment manager arrangements

Details of our policy in respect of investment managers, their objectives and investment guidelines are set out below.

Partners Group – Impact investing

We have appointed Partners Group (Luxembourg) S.A ("Partners Group") as the investment manager for the Scheme's Impact investing portfolio.

The Scheme is invested in the Partners Group LIFE I Fund (the "fund"), which is a pooled fund.

- The objective of the fund is to achieve attractive risk-adjusted returns on a globally diversified private markets portfolio focusing on investment opportunities that support the United Nation's Sustainable Development Goals.
- Partners Group aims to achieve an IRR of 8% to 12% pa, net of fees, over the term of the Fund.
- The fund is a closed-end investment vehicle, valued on a quarterly basis, and is unlisted.

The expected term of the mandate is ten years (though it may be extended by up to two years via two one-year extensions). It is considered as an illiquid investment – we do not expect to be able to readily sell the Scheme's stake in the fund.

The fund is structured as a Société d'Investissement à Capital Variable (SICAV) Reserved alternative investment fund (RAIF)

Columbia Threadneedle ("CTI") – LDI and Short-Duration Credit

We have selected Columbia Threadneedle Investments ("CT") as the investment manager for the Scheme's LDI portfolio. The Scheme invests in a bespoke pooled LDI fund with CT where it is the sole investor. Within the CT mandate the Scheme also allocates assets to CT's pooled Net Zero Transition Low Duration Credit Fund.

CT LDI Private Sub-Fund

- The objective of the Fund is to hedge a portion of the Scheme's liabilities (as defined by a custom liability benchmark within the subscription agreement) against changes in interest rates and inflation expectations.
- The benchmark is a custom liability benchmark based on the liability cashflows of the Scheme.

CT Net Zero Transition Low Duration Credit Fund

- The objective of the Fund is to act as an additional source of collateral alongside the LDI portfolio, while delivering a return similar to low duration non-government bonds.
- The benchmark is the ICE BofA 1-5 year Global Corporate Index (hedged GBP).

The CT LDI Private Sub-Fund and the CT Net Zero Transition Low Duration Credit Fund are daily dealing, open ended and unlisted.

CT has appointed State Street Bank Luxembourg S.C.A. as the depositary and transfer agent (effectively covering all custodial roles).

AXA Investment Managers – Buy and Maintain Credit and Asset-Backed Securities

We have selected AXA Investment Managers ("AXA") to manage the Scheme's corporate bond portfolio and asset-backed securities portfolio.

AXA Bespoke Buy and Maintain Credit Fund (the "Fund")

The Scheme invests in a bespoke pooled corporate bond fund in which it is the sole investor.

- The objective of the Fund is to invest in a diversified portfolio of fixed income securities in an efficient manner that will, over the life of the Fund, seek to deliver and distribute cashflows by way of income and/or principal repayments on those securities.
- There is no formal performance benchmark, though we intend to use the ICE Bank of America Merrill Lynch Sterling Non-Gilt Index (the "Reference Index") as a performance comparator.

- The mandate will be measured against following criteria:
  - Realised default rate in the Fund vs the Reference Index
  - Level of rating migration to sub-investment grade within the Fund vs the Reference Index
  - The Fund's realised volatility vs the Reference Index over the longer term.
- The Fund is weekly dealt and unlisted. It is a sub-fund within AXA IM Smart Matching Solutions Plc, an Irish domiciled open-ended umbrella investment company with variable capital.

AXA manages the portfolio allowing for an exclusion list (based on the Trustee's non-financial factor criteria) provided by Epworth Investment Management Limited ("Epworth"), and reviewed from time to time by Epworth on our behalf.

AXA Investment Grade Asset-Backed Securities Fund

We have selected AXA as the investment manager for the Scheme's asset-backed securities portfolio. The Scheme invests in a pooled fund with AXA.

- The objective of this fund is "to seek to achieve yield generation of capital invested by the Shareholders over the medium term"
- The Fund does not have a benchmark; however, for performance comparison purposes, the fund will be measured against the Sterling Over Night Indexed Average (SONIA) capitalised daily.
- **The fund is daily dealing and unlisted.** It is a sub-fund within AXA IM Strategies ICAV, an Irish domiciled Irish Collective Asset-management Vehicle

AXA has appointed The Bank of New York Mellon, Dublin Branch as the depositary for the Fund. The Bank of New York Mellon, Dublin Branch is a large financial institution with a significant level of assets to which it offers custodial and administrative services. It is authorised and regulated by The Central Bank of Ireland. The fund manager carries out its own due diligence in selecting, appointing and reviewing its chosen custodian.

Epworth – Cash

We have selected Epworth to manager the Scheme's money-market ("cash") allocation in the pooled CFB Deposit Fund.

- The Fund's benchmark is 1 week LIBID.
- The Fund is daily dealing, unlisted and open-ended.

Epworth has appointed HSBC Bank Plc as the custodian of the Scheme's assets under their management.

Additional Voluntary Contributions

We have selected Epworth as the Scheme's money purchase AVC provider. Epworth manage the buying, selling or subscribing for units in the CFB funds, the allocation to which is in accordance with the relevant members' selections and not on a discretionary basis.

The Scheme offers members a choice of two lifestyle strategies. Details of the two lifestyle strategies are set out below. Members are provided with information on the lifestyle strategies and their characteristics that will allow the members to make an informed choice.

1. Lifestyle strategies

We offer members two lifestyle strategies. The asset allocation for both lifestyle strategies is the same until 10 years from retirement.

1.1 Default Lifestyle Strategy Objective:

Objective: The objective of the Default Lifestyle Strategy is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement, on the basis that members will take the whole of their pension savings as a cash lump sum at retirement.

The Default Lifestyle Strategy uses the Epworth UK equity, overseas equity and Deposit funds and targets 100% cash at retirement.

1.2 Alternative Lifestyle Strategy:

Objective: To generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments that move in line with annuity prices as members near retirement, on the basis that members will use 100% of their pension savings to buy a guaranteed lifetime annual income (known as an annuity) at retirement.

The Alternative Lifestyle Strategy invests in the Epworth UK equity, overseas equity, and Managed Fixed Interest funds. It targets 100% bonds at retirement.

These options have been selected based on the our understanding of the demographics of the Scheme's membership. If members do not select a strategy to

invest their AVCs in they will automatically be invested in the Default Lifestyle Strategy.

Prior to August 2020 the Scheme also allowed members who joined before 2006 to invest AVCs in a With Profits arrangement offering a guaranteed level of return. Since then, although existing member assets remain invested alongside the Scheme's DB assets with the Scheme Actuary advising on any further bonuses to be paid to members, all additional AVC's are invested in the lifestyle strategies described above.

We will review performance of the AVC fund selection on a regular basis.

Part 4: Monitoring and engaging with managers on voting and engagement

This section sets out our effective system of governance ("ESOG") in relation to stewardship. This includes monitoring the voting and engagement activities that our investment managers undertake on our behalf, engaging with them regarding our expectations in relation to stewardship, and encouraging improvements in their stewardship practices. We will review this ESOG periodically, and at least triennially.

We have formed an ESG Sub-Committee to oversee ESG related matters, voting and wider engagement more closely. This Sub-Committee will act as a forum for formation of policies, oversight and engaging with managers, where appropriate.

Stewardship priorities

We have selected some priority themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are:

- (Climate emergency) A Just Transition for All
- Quality Living for All
- (Worker's rights) Safe Work for All

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) to make communication of the priorities to third parties more straight forward. These priorities encompass a range of risks which are financially material for the Scheme's investments and non-financial factors which we believe the Scheme's membership would support action and engagement on. Therefore we believe it is in our members' best interests that our managers adopt strong practices in these areas.

The ESG Sub-Committee reviews the Stewardship Priorities on an annual basis having received advice from Epworth Investment Management to ensure consistency with Methodist beliefs and priorities. Changes, if necessary, will be recommended to the JIC for approval by the Trustee Boards.

We will write to our investment managers regularly to notify them of our stewardship priorities, and remind them of our expectations of them in relation to responsible investment – ie ESG considerations, climate change, voting and engagement.

Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes and have a preference for managers and funds with net zero targets and credible plans to meet them. We therefore favour investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment, focusing on our stewardship priorities.

Manager monitoring

In monitoring our investment managers, we will consider:

- The initiatives of which they are signatories
- The views and assessments of our ESG advisors and Investment Consultants.
- The regular ESG reporting of each investment manager and how well their voting and engagement aligns with the Scheme's stewardship priorities
- Regular dialogue between the ESG Sub-Committee, Investment Committee and each investment manager.

We receive information regularly to enable us to monitor our managers' responsible investment practices and check how effective they're being – with primary monitoring responsibility held by the ESG Sub-Committee and Investment Committee.

This information includes metrics such as our investment consultant's responsible investment grades for each manager, the views of our ESG advisors, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for our mandates. It also includes a selection of voting and engagement examples relating to our stewardship priorities. The examples are chosen to reflect our stewardship priorities and material mandates over the course of the scheme year (although not necessarily every priority for every mandate).

Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, we expect most managers will have areas where they could improve. We therefore aim to have an ongoing dialogue with our managers to clarify our expectations and encourage improvements. Managers are routinely invited to meet the Joint Investment Committee in order to do this.

We review the information outlined above to identify any concerns, for example where the managers' actions are not aligned with our views. Where there are concerns, we typically seek further information. If a concern is confirmed, we will consider what further action is appropriate/intend to take the following steps:

1. We define clearly what the issue is, the objective(s) for the engagement and the target date(s) for achieving those objective(s).
2. Contact the investment manager to raise the concern and set out its expectations on how the issue might be resolved.
3. Aim to agree an improvement plan with the investment manager and a timetable for achieving it
4. Regularly review progress on the implementation of the improvement plan and agree next steps.
5. If concerns are not addressed, escalate the dialogue at a more senior level.
6. If action is not satisfactory the ESG Sub-Committee may consider recommending to the Joint Investment Committee a reduction or termination of the mandate.

The Joint Investment Committee, with support from the ESG Sub-Committee, reviews progress on the engagements on a regular basis and agrees any next steps.

Implementation statement including most significant votes

Following the end of each Scheme year, we prepare a statement which explains how we have implemented our voting and engagement policies during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. The Joint Investment Committee selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to factors such as:

- whether it relates to one of our stewardship priorities;
- the potential financial impact of the vote;
- any potential impact of the vote on our investor rights or influence;
- the size of our holding; and
- whether the vote was high-profile or controversial.