

Addendum to the Statement of Investment Principles

For the Pension and Assurance Scheme for Lay Employees of the Methodist Church

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

This addendum to the Statement of Investment Principles (“SIP”) for the Pension and Assurance Scheme for Lay Employees of the Methodist Church (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 and responsibilities

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:

- 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
- 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) the Scheme's bulk annuity provider, investment advisers, actuary, and other service providers
- 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.

We recognise that a number of these responsibilities are no longer as prominent since we purchased a bulk annuity policy with Aviva in respect of defined benefit pension liabilities, and only residual assets are held with the Scheme's only investment manager (Epworth) in a Deposit Fund.

2. Investment adviser

The investment adviser's responsibilities include assisting us with reviews of this SIP.

3. Fee structures

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 fee structure used 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.

4. 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. 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.

However, as we have purchased a bulk annuity policy with Aviva to insure member benefits, the number of risks that impact the Scheme has significantly reduced.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to direct credit risk associated with the Scheme's bulk annuity policy with Aviva. However, this risk is mitigated by the regulatory environment in which the insurer operates and the diversification of the policy's underlying assets. Therefore, this risk is minimal.

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 sought to appoint an insurer that manages this risk appropriately. However, we understand we have limited influence to manage and monitor these risks having already purchased a bulk annuity policy with Aviva.

In selecting Aviva we considered whether it had set credible net zero targets for its investments with net zero greenhouse gas emissions by 2050 to help drive real world emissions reduction and reduce systemic risks relating to climate change. We monitor and engage with Aviva 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 considered which insurer would manage these risks appropriately at the time of selection.

Part 3:

Investment manager arrangements

Details of our investment arrangements are set out below.

Aviva – Bulk Annuity Provider

We selected Aviva in April 2024 as the Scheme's insurer, purchasing a bulk annuity policy to fully secure member benefits.

Epworth – Cash

We have selected Epworth to manage a portion of the Scheme's residual cash allocation in the pooled CFB Deposit Fund. There is a small balance in this 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 Aegon as the Scheme's money purchase AVC provider. Aegon offers members a choice of funds in which to invest their AVCs:

- Aegon High Equity With-Profits Fund (now closed)
- Scottish Equitable BlackRock Aquila 50/50 Global Equity Index Fund
- Scottish Equitable BlackRock Aquila Over 15 Years Corporate Bond Index Fund
- Active Cash Fund (closed to all investments except existing regular contributions)
- Cash Fund
- Ethical (Equity Fund)
- Ethical Cautious Fund
- Scottish Equitable Aegon Ethical Corporate Bond Fund

The Trustee has selected the Ethical Cautious Fund as the default option. The Trustee 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. We will review this ESGOG periodically, and at least triennially.

We have 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 engagement, where appropriate.

Stewardship priorities

We have selected some priority themes to provide a focus for our monitoring 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 overlaid 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 Aviva adopt strong practices in these areas.

However, we understand that as the Scheme’s assets comprise of a bulk annuity policy with Aviva and residual assets held in a Deposit Fund and cash, we have limited scope to influence voting and engagement.

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.

Insurer monitoring

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

This information includes metrics such as our investment consultant’s responsible investment grades, the views of our ESG advisors, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for underlying investments.

Implementation statement

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.