

## Stewardship Code

The UK Stewardship Code (“Code”) was published by the Financial Reporting Council (FRC) in July 2010 and revised in September 2012. The Code is a principles-based code, comprising seven principles, with the aim to enhance the quality of engagement between institutional investors and companies. It is targeted at investors and asset owners, with the FRC encouraging managers to sign up to the Code and provide disclosure on a “comply or explain” basis.

The FRC considers that institutional investors have a significant amount to gain from good stewardship and reporting standards in any companies that they might invest in, and that they have a responsibility to ensure that they engage effectively with those companies in their role as owner.

Our detailed statement in response to the seven Principles contained in the Code is set out below:

<b>Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities</b>	
<b>Guidance</b>	<b>Methodist Pension Schemes’ approach</b>
<p>Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the Immediate subject of votes at general meetings.</p> <p>The policy should disclose how the institutional investor applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.</p> <p>The statement should reflect the institutional investor’s activities within the investment chain, as well as the responsibilities that arise from those activities. In particular, the stewardship responsibilities of those whose primary activities are related to asset ownership may be different from those whose primary activities are related to asset management or other investment-related services.</p> <p>Where activities are outsourced, the statement should explain how this is compatible with the proper exercise of the institutional investor’s stewardship</p>	<p>The Methodist Pension Schemes invest in ethical investments. The Pension Schemes’ overall approach to the Stewardship Code is to maintain a balance between the benefits obtained and related costs, which are ultimately borne by the Pension Scheme.</p> <p>The Methodist Pension Schemes seek to adhere to the Stewardship Code and encourages its appointed asset managers to do so as well. The way we invest and steward our investments forms an integral part of the Church’s ethical policies.</p> <p>In practice the Schemes’ policy is to apply the Code both through its arrangements with its asset managers and other associated agents through making this explicit in its Statement of Funding Principles. Section 7 of the SIPs directly refers to Social, Environmental and Ethical considerations and stipulates, that wherever possible, investment managers should adopt a social, environmental and ethical stance consistent with the aims of the Methodist Church.</p>

<p>responsibilities and what steps the investor has taken to ensure that they are carried out in a manner consistent with the approach to stewardship set out in the statement.</p> <p>The disclosure should describe arrangements for integrating stewardship within the wider investment process.</p>	<p>The Methodist Church formed the Central Finance Board (CFB) to manage the funds consistently with these aims, and the CFB has confirmed it operates a social, environmental and ethical policy regarding the investment of securities under its control. The CFB's policy is summarised in its mission statement.</p> <p>A Joint Advisory Committee on the Ethics of Investments has been established to advise the CFB on ethical matters related to investment. An annual Report is made to the Methodist Conference on the activities of this Committee and the Report is reviewed by the Trustee Boards to confirm that the CFB is meeting the Trustee's Social, Environmental and Ethical policy.</p> <p>The Pension Schemes have invested assets not under the management of the CFB, but with Mayfair Capital and Threadneedle Property Unit Trust (TPUT). Mayfair Capital does not invest in UK shares and so does not fall under the intended scope of the Code. However, the same approach is adopted to stewardship responsibilities across our portfolio. Our statement focuses on applying the same principles in our approach to stewardship for all our investments, including those which are made on our behalf by our asset managers, all of whom are wholly aware of our aims and directions on ethical investments.</p>
<p><b>Principle 2: Institutional investors should have a robust policy on managing conflicts of</b></p>	
<p><b>Guidance</b></p>	<p><b>Methodist Church Trustee Boards' approach</b></p>
<p>An institutional investor's duty is to act in the interests of its clients and/or beneficiaries.</p> <p>Conflicts of interest will inevitably arise from time to time, which may include when voting on matters affecting a parent company or client.</p>	<p>The Methodist Church Trustee Boards have detailed policies and procedures for managing and recording conflicts of interest, or potential conflicts of interest.</p> <p>The Conflicts of Interest Policies define what a conflict is, or could be, and sets out possible areas that could give rise to conflicts of interest, as well as procedures to identify and manage such conflicts, e.g. a Trustee Director</p>

<p>Institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.</p>	<p>may have a conflict relating to external directorships, other appointment or conflict on a specific topic. Trustee Directors are required to declare interests pertaining to considerations at trustee meetings and where necessary, remove themselves from discussion and decision making. Such actions are separately included in meeting minutes.</p> <p>Conflicts are declared at each Trustee Board meeting and the issues covered include Gifts and Hospitality.</p>
<p><b>Principle 3: Institutional investors should monitor their investee companies.</b></p>	
Guidance	Methodist Pension Schemes' approach
<p>Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness.</p> <p>When monitoring companies, institutional investors should seek to:</p> <ul style="list-style-type: none"> <li>▪ keep abreast of the company's performance;</li> <li>▪ keep abreast of developments, both internal and external to the company, that drive the company's value and risks;</li> <li>▪ satisfy themselves that the company's leadership is effective;</li> <li>▪ satisfy themselves that the company's board and committees adhere to the spirit of the UK Corporate Governance Code, including through meetings with the chairman and other board members;</li> <li>▪ consider the quality of the company's reporting; and</li> <li>▪ attend the General Meetings of companies in which they have a major holding, where appropriate and practicable.</li> </ul> <p>Institutional investors should consider carefully explanations given for departure from the UK Corporate Governance Code and make reasoned judgements in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position.</p> <p>Institutional investors should endeavour to identify at an early stage issues that may result in a significant loss in investment value. If they have concerns, they</p>	<p>Because we do not manage our investments in UK-listed companies in-house, monitoring of the quality of our investments is delegated to our active asset managers.</p> <p>The underlying investments of the companies in which we have a holding are closely monitored through regular meetings with senior management and senior investor relationship personnel, as well as through widely available information such as regulatory news announcements, press reports and broker comment.</p> <p>We receive regular reports from our managers on investment decisions. We monitor their investment processes and decisions closely with criticism, to ensure that they are based on sound monitoring. Contact with all managers is maintained through regular group or one-to-one meetings, as well as conference calls or web-enabled meetings.</p> <p>The Board gives instruction to our investment managers through our Statement of Investment Principles policies and seek the fullest possible understanding of their investment process prior to allocating investment capital to them. We seek to ensure that our capital is invested in line with our requirements and the process described to us.</p> <p>Extensive use is also made of the support provided by the Association of British Insurers (ABI) and in particular, any issues highlighted would be</p>

<p>should seek to ensure that the appropriate members of the investee company's board or management are made aware.</p> <p>Institutional investors may or may not wish to be made insiders. An institutional investor who may be willing to become an insider should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.</p> <p>Institutional investors will expect investee companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their prior agreement.</p>	<p>investigated further by the investment team, including contact with company management where appropriate.</p> <p>In the course of routine business, the Methodist Pension Scheme Boards expect that any information divulged by investee companies will not inhibit trading in the shares of that company unless we are expressly requested to become involuntary 'insiders'. We are prepared to be made insiders to sensitive information provided that it is felt necessary to pursue the objectives of the engagement. Our usual practice would be to otherwise indicate in advance if they felt it necessary for the engagement for inside information to be conveyed.</p>
<p><b>Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.</b></p>	
<p><b>Guidance</b></p>	<p><b>Methodist Pension Schemes' approach</b></p>
<p>Institutional investors should set out the circumstances in which they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening. Instances when institutional investors may want to intervene include, but are not limited to, when they have concerns about the company's strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.</p> <p>Initial discussions should take place on a confidential basis. However, if companies do not respond constructively when institutional investors intervene, then institutional investors should consider whether to escalate their action, for example, by:</p> <ul style="list-style-type: none"> <li>▪ holding additional meetings with management specifically to discuss concerns;</li> <li>▪ expressing concerns through the company's advisers;</li> <li>▪ meeting with the chairman or other board members;</li> <li>▪ intervening jointly with other institutions on particular issues;</li> </ul>	<p>The Board recognises that the use of proxy votes and constructive engagement with company management can help protect and enhance shareholder value. Typically, the Trustee expects its investment managers to escalate stewardship activities and intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.</p> <p>The Trustee receives, and reviews annually, reporting provided by the Trustee's investment consultant, which summarises the environmental, social and governance integration (ESG). The report further covers the activities of its external investment managers and highlights areas of potential concern.</p> <p>For equity investment managers this includes consideration of:</p> <ul style="list-style-type: none"> <li>▪ whether voting activity has led to any changes in company practice;</li> <li>▪ whether the investment manager's policy specifies when and how they will escalate engagement activities;</li> <li>▪ overall engagement statistics (volume and areas of focus);</li> <li>▪ example of most intensive engagement activity; and</li> </ul>

<ul style="list-style-type: none"> <li>▪ making a public statement in advance of General Meetings;</li> <li>▪ submitting resolutions and speaking at General Meetings; and</li> <li>▪ requisitioning a General Meeting, in some cases proposing to change board membership.</li> </ul>	<ul style="list-style-type: none"> <li>▪ the estimated performance impact of engagement on the strategy in question.</li> </ul> <p>Given the range of fund managers and the schemes investments, the Trustee carries out its monitoring at the manager level to identify:</p> <ul style="list-style-type: none"> <li>▪ trends to ensure progress is being made in stewardship activities;</li> <li>▪ specific managers where progress or the rate of progress is not adequate; and</li> <li>▪ appropriate specific actions necessary.</li> </ul> <p>We are made aware of issues of concern directly by contact with our investment managers. The day-to-day interaction with companies is delegated to the funds' managers, including the escalation of engagement when necessary.</p> <p>We are provided with detailed background to issues and the managers will escalate through engagement in or between meetings. Any issues of concern would normally be raised at regular internal Investment Governance meetings, where there is a practice and process for the engagement of oversight. Following group or one-to-one meetings with the managers, we engage in clear dialogue, returned with detailed feedback which is provided directly or through corporate advisors, to the Joint Committee and Main Boards. Any serious concerns would be escalated as a matter of urgency.</p> <p>Our managers engage in the approach that 'one size does not fit all' thus a case by case solution approach is integrated with the general principle of seeking to escalate via individual or collaborative action.</p>
<b>Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.</b>	
<b>Guidance</b>	<b>Methodist Pension Schemes' approach</b>
At times collaboration with other investors may be the most effective manner in which to engage.	Collaboration with other investors is an established part of the Boards regular ethical investment activity.

<p>Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.</p> <p>Institutional investors should disclose their policy on collective engagement, which should indicate their readiness to work with other investors through formal and informal groups when this is necessary to achieve their objectives and ensure companies are aware of concerns. The disclosure should also indicate the kinds of circumstances in which the institutional investor would consider participating in collective engagement.</p>	<p>Through its investment managers, the Boards' partners collaborate initiatives with like-minded investors such as other church investors, asset owners and asset managers (e.g. the Church Investors Group). It also collaborates with other investors to engage with policy makers on issues that require government intervention.</p> <p>The Boards are also prepared to act in collaboration with other investors if it is considered that there is a common interest in highlighting significant areas of concern.</p>
<p><b>Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.</b></p>	
Guidance	Methodist Pension Schemes' approach
<p>Institutional investors should seek to vote all shares held. They should not automatically support the board.</p> <p>If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good practice to inform the company in advance of their intention and the reasons why.</p> <p>Institutional investors should disclose publicly voting records.</p> <p>Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services.</p> <p>Institutional investors should disclose their approach to stock lending and recalling lent stock.</p>	<p>The Board has delegated its voting rights to the investment managers and expects them to vote whenever it is practical to do so. The Boards' investment managers are encouraged to have a documented voting policy in line with relevant industry best practice and to disclose this publicly.</p> <p>The Boards receive and review reporting provided by the investment consultant, which include consideration of:</p> <ul style="list-style-type: none"> <li>▪ whether the manager has a voting policy and, if so, what areas are covered;</li> <li>▪ whether client-directed voting policies can be applied;</li> <li>▪ the level of voting activity which is disclosed to clients and the level of voting activity which is disclosed publicly;</li> <li>▪ whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);</li> <li>▪ if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and</li> <li>▪ whether a third party proxy voting service provider is used and, if so, how.</li> </ul>

**Principle 7: Institutional investors should report periodically on their stewardship and voting activities.**

**Guidance**

Institutional investors should maintain a clear record of their stewardship activities.

Asset managers should regularly account to their clients or beneficiaries as to how they have discharged their responsibilities. Such reports will be likely to comprise qualitative as well as quantitative information. The particular information reported and the format used, should be a matter for agreement between agents and their principals.

Asset owners should report at least annually to those to whom they are accountable on their stewardship policy and its execution.

Transparency is an important feature of effective stewardship. Institutional investors should not, however, be expected to make disclosures that might be counterproductive. Confidentiality in specific situations may well be crucial to achieving a positive outcome.

Asset managers that sign up to this Code should obtain an independent audit opinion on their engagement and voting processes having regard to an international standard or a UK framework such as AAF 01/06. The existence of such assurance certification should be publicly disclosed. If requested, clients should be provided access to such assurance reports.

**Methodist Pension Schemes' approach**

Investment managers report quarterly on investment activity and Stewardship activity. This includes the required financial performance and fund activity, as well as detailed coverage of ethical stances. The reports provide an informed roundup of the main areas of engagement during the period under discussion and invite detailed discussions in respect of those areas presented.

The position on significant matters is disclosed through regular direct communications to pension scheme members, posting on the Methodist Church website and through regular papers presented to the Board on various corporate governance topics, as well as on social and environmental issues.

The Boards expect and encourages its investment managers to disclose their voting records publicly in an appropriate format. The Board regularly receives and reviews reporting provided by its investment consultant. These detail activities carried out by the external investment managers and highlight areas of potential concern. These consider the transparency offered by the managers, and the level, frequency and standard of reporting offered by the individual managers.