

# **Clergy (Widows and Dependants) Pensions Fund**

Annual Report and Financial Statements  
31 December 2018

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## Trustee's report

The Church of England Pensions Board (the "Board"), as Trustee of the Clergy (Widows and Dependants) Pensions Fund ("CWDPF" or the "Scheme") is pleased to present the Scheme's annual report for the year ended 31 December 2018.

### Scheme constitution and management

The Scheme was established in 1954 by Section 13 of the Clergy Pensions Measure 1954 to provide benefits to the widows and dependants of the clergy. It was governed by the Clergy Pensions Measure 1961 (as amended from time to time). The Scheme was closed to new entrants in 1967 and no contributions have been received since 1988. Benefits are payable to widows and dependants following the death of Clergymen who were ordained before 1968 and who were contributing members of the Scheme.

The Board as Trustee is responsible for setting the overall strategy and managing the Scheme. The Board's structure and management is shown in Appendix 1.

Although the Scheme disinvested fully from The Church of England Investment Fund for Pensions ("CEIFP" or the "Fund") in 2015, it remained a non-participating member of the Fund. The Scheme was a member of the CEIFP since its establishment in 1985. The CEIFP's purpose is to pool assets to take advantage of economies of scale and reduce risk through diversification, which the smaller participating pension schemes would not have access to on their own.

The Pensions (Pre-consolidation) Measure 2018 inserted a new section 18A into the Clergy Pensions Measure 1961. This section allowed the Pensions Board to transfer to the Church of England Funded Pensions Scheme ("CEFPS") "the sum for the time being standing to the credit of the Clergy (Widows and Dependants) Pensions Fund." It also puts an obligation on the Board to continue to pay any beneficiaries (existing or future) either out of the CEFPS or by alternative arrangements e.g. through an insurance policy.

This power was exercised by a deed dated 18 December 2018, and the net assets of the CWDPF were transferred to the CEFPS at that date. The Scheme was wound up on 31 December 2018.

### Rule changes

There were no changes to the Scheme's rules during 2018.

### Financial developments

There were no significant financial developments within the Scheme during the year, prior to the transfer of all assets to the CEFPS.

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

### Membership

The change in membership during the year is as follows:

	Beneficiary pensioners
At 1 January 2018	1,050
New spouse or dependants beneficiaries	50
Deaths	(64)
Transferred to CEFPS	(1,036)
<b>Total at 31 December 2018</b>	<b>-</b>

### Pension increase

During 2016, the Board adopted a policy to review the Scheme as at 31 December each year, and if the funding position allows, award annual pension increases in April each year in line with Retail Price Index ("RPI") over the 12 months to 30 September in the preceding year. The increase in RPI for the year to 30 September 2017 was 3.9% (2016: 2.0%). Pensions in payment and contingent pensions not yet in payment on 1 April 2018 therefore increased by 3.9% (2017: 2.0%). Immediately prior to the closure of the Scheme, a one-off uplift to benefits of 6.5% was allocated to beneficiaries to be paid after 1 January 2019 from the CEFPS.

### Actuarial liabilities

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Section 34, the financial statements do not include liabilities in respect of future retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. However, the terms of the CWDPF are such that the Pensions Act 2004 does not apply to it. The Board's practice has been to operate this Scheme in the same way as the other pension schemes for which it is trustee.

## Trustee's report (continued)

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2015 on the Projected Unit Method. This showed that on that date:

	Full actuarial valuation At 31 December 2015
Funding target	£25.3 million
Net assets available for benefits	£24.9 million
Funding surplus/(deficit)	£(0.4) million
Funding level	98%

### Key assumptions:

Future bonuses	In line with RPI for on-going basis 0% for solvency basis
Net single equivalent discount rate	-0.7% p.a.
Mortality base table	90% of S2NMA and S2NFA tables for members with contingent benefits 80% of S2NMA and S2NFA tables for beneficiaries with pensions in payment

## Investment management

### Investment strategy and principles

The Trustee had delegated the responsibility for the management of investments to an Investment Committee, which was supported by professional in-house staff and external investment managers and advisors. The Trustee set the investment strategy for the Scheme after taking advice from the Scheme's Investment Advisor. The Trustee had in place investment mandates with its investment managers which implement this strategy.

In accordance with Section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") was prepared for the Scheme by the Trustee. This incorporated the investment strategy and was supported by documents that set out how the investment strategy was implemented. Copies of the SIP may be obtained from the contact details listed in Appendix 1. The investment risks and the strategies in place to mitigate them are described in the notes to the financial statements.

### Management and custody of investments

The Board had appointed The Northern Trust Company Limited ("Northern Trust") to keep custody of the Scheme's investments, other than pooled investment vehicles, where the manager makes its own arrangements for the custody of underlying investments.

### Investment performance

The Scheme's assets were invested entirely in a portfolio of index-linked Gilts and cash that has been structured so that its cash flow, resulting from coupon payments and redemptions, matches the expected benefit payments from the Scheme. The portfolio was managed by BlackRock, with advice from the Board's Investment Advisor. During the year until 18 December 2018, the fund return was 3.0%.

The Trustee considered the nature, disposition, marketability, security and valuation of the Scheme's investments and considered them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

### Further Information

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be made to the contact listed in Appendix 1.

### Approval

The Trustee's Report and Statement of Trustee's Responsibilities were approved by the Trustee on 25 June 2019 and signed on its behalf by:

Clive Mather  
Chairman



## **Statement of Trustee's Responsibilities**

The Church of England Pensions Board is Trustee of the Clergy (Widows and Dependants) Pensions Fund.

### ***Trustee's responsibilities in respect of the financial statements***

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

## **Independent Auditors' report to the Trustee of the Clergy (Widows and Dependents) Pensions Fund and the General Synod of the Church of England**

### ***Report on the audit of the financial statements***

#### **Opinion**

In our opinion, the Clergy (Widows and Dependents) Pensions Fund's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the Annual Report and Financial Statements, which comprise: the statement of net assets available for benefits as at 31 December 2018; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

#### **Emphasis of matter – financial statements prepared on a basis other than going concern**

In forming our opinion on the financial statements, which is not modified, we draw attention to note 2 to the financial statements, which describes the Trustee's reasons why the financial statements have been prepared on a basis other than going concern.

#### **Reporting on other information**

The other information comprises all the information in the Annual Report and Financial Statements other than the financial statements and our auditors' report thereon. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

#### **Responsibilities for the financial statements and the audit**

##### ***Responsibilities of the Trustee for the financial statements***

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme, or has no realistic alternative but to do so.

##### ***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Independent Auditors' report to the Trustee of the Clergy (Widows and Dependents) Pensions Fund and the General Synod of the Church of England (continued)**

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

***Use of this report***

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for the General Synod and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

*PhuathameCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

25761 2019

## Fund Account for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
<b>Benefits</b>			
Benefits paid or payable	4	(1,262)	(1,390)
Group transfer to Church of England Funded Pensions Scheme	5	(25,119)	-
<b>Total benefits and other expenses paid</b>		<b>(26,381)</b>	<b>(1,390)</b>
<b>Net withdrawals from dealings with members</b>		<b>(26,381)</b>	<b>(1,390)</b>
<b>Returns on investments</b>			
Investment income	6	130	157
Change in market value of investments	7	624	241
Investment management expenses		(13)	(13)
<b>Net returns on investments</b>		<b>741</b>	<b>385</b>
Net (decrease) in the fund		(25,640)	(1,005)
Opening net assets		25,640	26,645
Closing net assets		-	25,640

Notes 1 to 14 form part of these financial statements.

## Statement of Net Assets available for benefits as at 31 December 2018

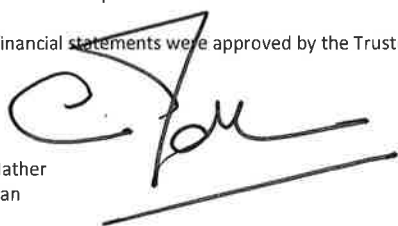
	Notes	2018 £000	2017 £000
<b>Investment assets</b>			
Bonds	7	-	22,440
Pooled investment vehicles	7	-	3,073
Investment cash	7	-	10
Other investment balances	7	-	18
<b>Total investment assets</b>		<b>-</b>	<b>25,541</b>
Current assets	8	-	106
Current liabilities	9	-	(7)
<b>Net current assets</b>		<b>-</b>	<b>99</b>
<b>Total net assets available for benefits</b>		<b>-</b>	<b>25,640</b>

The financial statements summarise the transactions of the Scheme and deal with the net assets available for benefits at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Scheme, which does take into account such obligations, is described on page 3, and these financial statements should be read in conjunction with this report.

Notes 1 to 14 form part of these financial statements.

These financial statements were approved by the Trustee on 25 June 2019 and signed on its behalf by:

Clive Mather  
Chairman



## Notes to the financial statements

### 1. Legal status

Clergy (Widows and Dependants) Pensions Fund (the "Scheme") was established in 1954 by section 13 of the Clergy Pensions Measure 1954 to provide benefits to the widows and dependants of the clergy. It is currently governed by the Clergy Pensions Measure 1961. Subsequent Clergy Pension Measures provided for similar benefits to be paid from the clergy pension scheme, and as a result this Scheme closed and is applicable only to widows and dependants of clergy who were serving in or before 1967. No contributions have been received since 1988.

### 2. Basis of preparation

The individual financial statements of the Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised November 2014) (the "SORP").

The Pensions (Pre-consolidation) Measure 2018 inserted a new section 18A into the Clergy Pensions Measure 1961. This section allowed the Church of England Pensions Board ("the Board") to transfer to the Church of England Funded Pensions Scheme ("CEFPS") "the sum for the time being standing to the credit of the Clergy (Widows and Dependants) Pensions Fund." It also puts an obligation on the Board to continue to pay any beneficiaries (existing or future) either out of the CEFPS or by alternative arrangements e.g. through an insurance policy. This power was exercised by a deed dated 18 December 2018, and the net assets of the CWDPF were transferred to the CEFPS at that date. As a result of this, the financial statements have been prepared on a basis other than going concern.

The financial statements have been prepared applying the provisions of FRS 102, subject to any necessary adjustment to the carrying value of assets and liabilities to restate them to the expected settlement amounts upon liquidation and transfer to the Church of England Funded Pensions Scheme. The Trustee has considered whether any adjustments are required to the financial statements upon adoption of this different basis of preparation, and have concluded that no adjustments are required because the assets and liabilities of the Scheme are already stated at their expected settlement value.

### 3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### a) Benefits paid or payable

Beneficiary pensions in payment are accounted for in the period to which they relate. Other benefits are accounted for on the accruals basis on the date of death as appropriate.

#### b) Transfers out

Group transfers are accounted for in accordance with the terms of the transfer agreement.

#### c) Administrative expenses

All costs relating to the administration of the Scheme are paid by the Board in the first instance. Following agreement with the responsible bodies in 2002, the administration expenses incurred in respect of the Scheme are borne by the responsible bodies, as part of their contribution rate to the Church of England Funded Pensions Scheme ("CEFPS"). Responsible bodies are organisations responsible for paying the stipends of office holders and their pension contributions.

#### d) Investment income and expenditure

##### *Investment income*

Income from other pooled investment vehicles which distribute income is accounted for on the date stocks are quoted ex-dividend/interest. Income from bonds, cash and short term deposits is accounted for on the accruals basis and includes income bought and sold on purchases and sales of bonds. Withholding taxes are included in investment income and are accrued on the same basis. Where withholding tax is not recoverable, this is shown as a separate expense within investment income.

##### *Investment expenditure*

Transaction costs are included in the cost of purchases and sales proceeds. These include commissions, stamp duty and other fees.

#### e) Investment valuation

Investment assets and liabilities are measured at fair value. Where an active market is unavailable, the Trustee adopts valuation techniques appropriate to the class of investments. The methods for determining fair value for the principal classes of investments are:

##### *Pooled investment vehicles*

Unitised investment vehicles which are not traded on an active market are estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation. The net asset value is determined by the fund manager by applying fair value principles to the underlying investments of the pooled arrangement.

##### *Bonds*

Bonds are included at the 'clean' price i.e. excluding any accrued income. Any accrued income is included in current assets.

The change in market value of investments recognised in the fund account during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

## Notes to the financial statements (continued)

### 3. Accounting policies (continued)

#### f) Foreign currencies

The Scheme's functional currency and presentational currency is pounds sterling.

### 4. Benefits paid or payable

	2018	2017
	£000	£000
Pensions paid	1,261	1,356
Section 14 payments upon death	1	34
<b>Total benefits paid</b>	<b>1,262</b>	<b>1,390</b>

### 5. Group transfer to Church of England Funded Pensions Scheme

	2018	2017
	£000	£000
<b>Transfer out represented by:</b>		
Bonds	23,036	-
Pooled investment vehicles (cash)	1,913	-
Investment cash	10	-
Other investment balances	13	-
Current assets	147	-
<b>Total group transfer to Church of England Funded Pensions Scheme</b>	<b>25,119</b>	<b>-</b>

### 6. Investment income

	2018	2017
	£000	£000
Bonds	129	156
Pooled investment vehicles	1	1
<b>Total investment income</b>	<b>130</b>	<b>157</b>

### 7. Investments

The table below shows the movement in investments in the year:

	At 1 January 2018	Purchases at cost	Sales proceeds	Change in market value	At 31 December 2018
	£000	£000	£000	£000	£000
Bonds	22,440	-	(23,036)	596	-
Pooled investment vehicles (cash)	3,073	2,201	(5,302)	28	-
	25,513	2,201	(28,338)	624	-
Investment cash	10				-
Other investment balances	18				-
<b>Total investments</b>	<b>25,541</b>				<b>-</b>

The Scheme did not require its assets to grow in the same way as a less mature scheme would, because it was closed to new contributions, 'super mature', and fully funded. As a result, it had been following a programme to de-risk its assets. In 2015 the Scheme disinvested fully from the pooled Church of England Investment Fund for Pensions and transferred its assets to Insight Sterling Liquidity Fund. In May 2016, these assets were transferred to management by Blackrock. The portfolio was constructed specifically to match the expected beneficiary payments of the Scheme, as an entirely de-risked portfolio. The investments were transferred to the Church of England Funded Pensions Scheme on 18 December 2018.

#### Transaction expenses

The Scheme did not directly incur transaction costs. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustees to quantify such indirect transaction costs. Custody charges are negligible.

All the Scheme's investments were registered in the UK.

## Notes to financial statements (continued)

### 8. Current assets

	2018 £000	2017 £000
Cash	-	106
Total current assets	-	106

### 9. Current liabilities

	2018 £000	2017 £000
<b>Creditors</b>		
Unpaid benefits	-	7
Total creditors	-	7

### 10. Fair Value of Investments

The fair value of investments has been determined using the following hierarchy:

Level	Description
1	Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
2	Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
3	Inputs are unobservable, i.e. for which market data is unavailable.

The Scheme's investment assets and liabilities have been included within these levels as follows:

	1 £000	2 £000	3 £000	Total £000
<b>At 31 December 2018</b>				
Bonds	-	-	-	-
Pooled investment vehicles (cash)	-	-	-	-
Investment cash	-	-	-	-
Other investment balances	-	-	-	-
Total investments	-	-	-	-
<b>At 31 December 2017</b>				
Bonds	-	22,440	-	22,440
Pooled investment vehicles (cash)	3,073	-	-	3,073
Investment cash	10	-	-	10
Other investment balances	18	-	-	18
Total investments	3,101	22,440	-	25,541

### 11. Investment risk disclosures

The investment objective of the Scheme was to maintain an investment portfolio with appropriate liquidity which would generate investment returns to meet the benefits payable as they fall due. The Trustee set the investment strategy for the Scheme as detailed in the SIP. FRS 102 requires the disclosure of information in relation to credit and market risk:

**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.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk** is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk** is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk** is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

## Notes to financial statements (continued)

### 11. Investment risk disclosures (continued)

The Scheme has had exposure to these risks during the year because of the investments it made to implement its investment strategy described in the Trustee Report. The Trustee managed investment risks, including credit and market risk, within agreed risk limits which were set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits were implemented through the investment management agreements in place with the Scheme's investment managers. These risks ceased to be relevant to the Scheme when the assets were transferred to the Church of England Funded Pensions Scheme on 18 December 2018.

The agreements set out the guidelines for the underlying investments held and the day to day management was the responsibility of the manager, including direct management of credit and market risks. The Trustee monitored the investment managers through day to day monitoring of the portfolios and annual meetings. In addition, the Trustee performed due diligence procedures before taking on a new investment manager. The table below summarises the extent to which the various classes of investments were affected by financial risks:

	Credit risk	Market risk			Total 2018 £000	Total 2017 £000
		Currency	Interest rate	Other price		
Bonds	●	○	●	●	-	22,440
Pooled investment vehicles (cash)	●	○	●	○	-	3,073
Investment cash	●	○	○	○	-	10
Other investment balances	●	○	○	○	-	18
<b>Total investments</b>					<b>-</b>	<b>25,541</b>

In the table above, the risk noted affects the asset class [●] significantly, [●] partially or [○] hardly / not at all.

#### Investment strategy

The Scheme was wholly invested in liability matching assets due to the maturity of the Scheme.

#### Credit Risk

The Scheme was subject to credit risk through its investments in bonds and cash balances. The Scheme also invested in pooled investment vehicles and was therefore directly exposed to credit risk in relation to the instruments it held in the pooled investment vehicles and was indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

	2018 £000	2017 £000
Bonds	-	22,440
Pooled investment vehicles (cash)	-	3,073
<b>Total investments exposed to credit risk</b>	<b>-</b>	<b>25,513</b>

The Trustee considered financial instruments or counterparties to be of investment grade if they were rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's. At 18 December 2018, no investments were held below investment grade.

Credit risk arising on bonds held directly was mitigated by investing in government bonds where the credit risk was minimal, or corporate bonds which were rated at least investment grade. The Trustee managed the associated risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by one issuer. Credit risk was mitigated on other investments by engaging with counterparties which are at least investment grade.

The Scheme's holdings in pooled investment vehicles were unrated. Direct credit risk arising from pooled investment vehicles was mitigated by the underlying assets being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitored the investment managers through assessing investment performance, as reported by the custodian, and meeting with the manager annually.

Cash was held with financial institutions which were at least investment grade credit rated.

#### Currency Risk

The Scheme was not subject to currency risk.

#### Interest rate risk

The Scheme was subject to interest rate risk due to the bonds held. If interest rates fall, the value of the bonds will rise to help match the increase in actuarial liabilities arising from a fall in discount rate. Similarly if interest rates rise the values of the bonds will fall, as will the actuarial liabilities because of an increase in discount rate.

#### Other price risk

The Scheme's investments were subject to price risk which principally relates to bonds. The Scheme managed this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

## Notes to financial statements (continued)

### 12. Concentration of investments

The following investments (other than gilts) accounted for more than 5% of the Scheme's net assets at the year end:

	2018		2017	
	£000	%	£000	%
Blackrock AM(IE) Liability SOLS	-	-	2,770	10.8

### 13. Related party transactions

None of the Board members (2017: none) who has retired from service under the Scheme is in a receipt of a pension on normal terms.

All costs relating to the administration of the Scheme are paid by the Board in the first instance. Following agreement with the responsible bodies in 2002, the administration expenses incurred in respect of the Scheme are borne by the responsible bodies, as part of their contribution rate to the CEFPs. The exact amount incurred by the CEFPs on behalf of the Scheme is not separately identifiable.

### 14. Post balance sheet events

At its meeting on 28 February 2019, the Trustee noted that, in accordance with its decision at its previous meeting, the Scheme had been wound up on 31 December 2018.



## **Appendix 1**

### **The Church of England Pensions Board: Structure and administrative information 2018**

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Structure and history	3
Management	3
Trustees: Board members and Committee members	4
Professional advisors	5
Enquiries	5

## Structure and history

The Church of England Pensions Board ("the Board") was established in 1926 by the Church Assembly (now the General Synod) by the Clergy Pensions Measure 1926, to serve as the pensions authority for the Church of England and to administer a comprehensive pension scheme for clergy. Prior to 1926 there was no proper pension system for clergy.

The Board was given powers in 1948 to provide housing for retired clergy and their widows and dependents, and in subsequent years also became trustee of various charitable funds and trusts to provide for the relief of poverty of retired clergy and their widows and dependants. In 1964 the Board became a registered charity (number 236627). Since then the funds and trusts have been amalgamated and now exist as a single restricted fund: the 'General Purposes Fund'; and one linked charity for which the Board is corporate trustee: the 'Clergy Retirement Housing Trust'.

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In its current form, the Board is a body corporate, a registered charity, and is governed by the Clergy Pensions Measure 1961 (as amended from time to time). It is the corporate trustee of four pension schemes:

- The Church of England Funded Pensions Scheme;
- Clergy (Widows and Dependents) Pensions Fund (wound up in December 2018);
- The Church Workers Pension Fund;
- The Church Administrators Pension Fund,

The Board's own annual report and financial statements are produced in a separate document, which is prepared under the Charities Statement of Recommended Practice.

The pension schemes themselves are members of a common investment fund, The Church of England Investment Fund for Pensions ("CEIFP"), which is not a pension scheme nor a corporate body in its own right. For the purposes of the annual report, the Board is referred to as the Trustee of the CEIFP.

The Board administers two other pension schemes, for which it is not a trustee: the Church of England Pensions Scheme (for clergy service prior to 1 January 1998); and the Church Commissioners Superannuation Scheme (for staff service prior to 1 January 2000). The financial affairs of these schemes can be found in the Church Commissioners' financial statements. They have no impact on the financial position of the pension schemes of which the Board is trustee.

## Management

There are 20 members of the Board. In summary, ten are elected by the various Houses of the General Synod and five by the members or the employers participating in the pension schemes for lay workers. One is appointed by the Church Commissioners and four are appointed by the Archbishops of Canterbury and York, including the Chairman whose appointment is approved by General Synod. A period of membership lasts for six years; retiring members may offer themselves for re-election or be reappointed.

The Board decides on the frequency of its meetings, which is typically five a year. If required, decisions are taken by a simple majority with the chairman having the casting vote.

For Board meetings a quorum is present when six people are in attendance, including at least two persons elected by the members of the pension schemes administered by the Board.

The Board has committees to oversee the following areas: Audit and Risk, Housing, Investment and Pensions. The Board has delegated authority to make decisions concerning these areas within its terms of reference and to make recommendations to the full Pension Board on other matters.

The Board has also delegated some of the day-to-day management and operation of the Scheme's affairs to professional organisations as set out on page 5.

The Board also manages the Secretariat to the Ethical Investment Advisory Group ("EIAG") on behalf of the Church of England's national investing bodies - the Church Commissioners, the Church of England Pensions Board and the CBF Church of England funds managed by CCLA Investment Management Ltd. The role of the EIAG supported by the Secretariat is to advise the national investing bodies on ethical investment policies.

## Trustee and advisors

The Board has members elected and appointed by various means, which are described below. It delegates some of its business and decision making to sub committees.

### Board Members

(1 January 2018 to 26 June 2019)

**Appointed with the approval of the General Synod, by the Archbishops of Canterbury and York**

Dr Jonathan Spencer CB (Chair) (to 30 Apr 2019)  
Clive Mather (Chair) (from 1 May 2019)

**Appointed by the Archbishops of Canterbury and York**  
Roger Mountford

**Appointed by the Archbishops of Canterbury and York after consultation with the representatives of the dioceses**  
Nikesh Patel (from March 2018)

**Appointed by the Archbishops of Canterbury and York after consultation with the Chairs of the Church of England Appointments Committee and the General Synod's House of Laity**  
The Revd Caroline Titley (from March 2018)

**Appointed by the Church Commissioners**  
Jeremy Clack FIA

**Elected by the Employers in the Church Workers Pension Fund and the Church Administrators Pension Fund**  
Richard Hubbard  
Canon Sandra Newton

**Elected by the House of Bishops of the General Synod**  
The Rt Revd Alan Wilson, Bishop of Buckingham

**Elected by the House of Clergy of the General Synod**  
The Revd Fr Paul Benfield  
The Revd Nigel Bourne  
The Revd Peter Ould  
The Ven David Stanton

**Elected by the House of Laity of the General Synod**  
Roger Boulton FIA  
Canon Nicolette Fisher  
Alan Fletcher FCII (Vice Chair)  
Canon Emma Osborne  
Bill Seddon

**Elected by the members of the Church Workers Pension Fund**  
Ian Boothroyd  
Ian Clark (to November 2018)  
Michaela Southworth (from December 2018)

**Elected by the members of the Church Administrators Pension Fund**  
Maggie Rodger

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## Committee Members

### Audit and Risk Committee

Maggie Rodger (Chair)  
Richard Hubbard (from February 2018)  
David Hunt FCA (co-opted) (to June 2018)  
The Revd Peter Ould (from February 2018)  
The Ven David Stanton  
Helen Ashley Taylor (from February 2019, co-opted)  
Caron Bradshaw (from February 2019, co-opted)

### Board Development Committee

Canon Nicolette Fisher (Chair)  
Roger Boulton FIA  
The Revd Nigel Bourne  
Canon Sandra Newton

### Pensions Committee

Roger Mountford (Chair) (to 18 April 2018)  
Roger Boulton FIA (Chair) (from 18 April 2018)  
The Revd Fr Paul Benfield  
Ian Boothroyd  
The Revd Nigel Bourne (from 15 February 2018)  
Canon Sandra Newton  
Alan Fletcher FCII  
Maggie Rodger

### Housing Committee

Canon Sandra Newton (Chair)  
Ian Clark (to November 2018)  
Canon Nicolette Fisher  
Jeremy Gray (co-opted)  
Jonathan Gregory (co-opted)  
Henrietta Podd (co-opted)  
Lawrence Santcross (co-opted)  
The Revd Caroline Titley (from 3 May 2018)  
The Revd Alan Wilson

### Investment Committee

Alan Fletcher FCII (Chair)  
Simon Baynes (co-opted – to February 2019)  
Matthew Beesley (co-opted)  
Roger Boulton FIA  
Jeremy Clack FIA  
Deb Clarke (co-opted – from 27 June 2018)  
Roger Mountford  
Canon Emma Osborne  
Nikesh Patel (from 3 May 2018)  
Bill Seddon (from February 2018)  
Jonathan Rogers (co-opted)

### Treasury Committee

Roger Mountford (Chair)  
Canon Sandra Newton  
Henrietta Podd (co-opted)  
The Ven David Stanton  
The Revd Caroline Titley

## Professional Advisors

<b>Actuary</b>	Aaron Punwani, Lane Clark and Peacock LLP
<b>Independent auditors</b>	PricewaterhouseCoopers LLP
<b>Bankers</b>	Lloyds Bank plc
<b>Investment Advisors</b>	Mercer Ltd
<b>Investment Custodians</b>	Northern Trust Company Ltd
<b>Investment Managers</b>	Acadian Asset Management Antin Infrastructure Partners Arrowstreet Capital LP Audax Group Basalt Infrastructure Partners BlackRock Investment Management (UK) Limited Bridgewater Associates LP Ltd CBRE Global Investors Colchester Global Investors Ltd Copper Rock Capital Partners LLC DIF Management Edinburgh Partners Ltd EQT Infrastructure Partners First State Investments Fund Management S.à.r.l. Generation Investment Management LLP H.I.G. Capital LLC Insight Investment Management (Global) Ltd I Squared Global Capital KKR & Co. LP Legal & General Assurance (Pensions Management) Ltd Longview Partners LLP Northern Trust Global Investors Pasco Robeco Asset Management Trilogy Global Advisors LP T Rowe Price International Ltd Winton Capital Management Ltd

## Enquiries

Enquiries about the schemes generally or about an individual's entitlement to benefit should be addressed to:

The Pensions Department  
Church of England Pensions Board  
29 Great Smith Street  
London  
SW1P 3PS

Alternatively, enquiries may be made by email to [pensions@churchofengland.org](mailto:pensions@churchofengland.org), or by telephone to 020 7898 1801.



## **Appendix 2**

### **Ethical Investment Approach of the National Church Institutions**

## **Ethical Investment Approach of the National Church Institutions**

The Church of England has three National Investing Bodies (NIBs): the Church of England Pensions Board, the Church Commissioners for England and the CBF Church of England Funds.

The NIBs are asset owners who invest on behalf of many beneficiaries. The way in which they invest forms an integral part of the Church of England's witness and mission.

The NIBs receive advice and support on ethical investment from the Church's Ethical Investment Advisory Group (EIAG). The purpose of the EIAG is to enable the NIBs to act as distinctively Christian – and Anglican – institutional investors. The EIAG develops ethical investment policy advice which, once agreed by the NIBs, is adopted by them, communicated to the wider Church and implemented.

The EIAG consists of representatives of the NIBs, and six independent members who are appointed by the EIAG's Nominations Committee. The Nominations Committee is formed of representatives of the NIBs, the Archbishops, General Synod, the Archbishops' Council, the Mission and Public Affairs Council, and a representative of the Church Investors Group. Legal responsibility for all investment decisions rests solely with the NIBs. The Pensions Board and Church Commissioners have also resourced their own Engagement Teams to undertake the implementation of their ethical investment policies.

The NIBs' ethical investment policy embraces stewardship, engagement and investment exclusions.

### **Stewardship**

The NIBs operate within the legal framework for investment by charities and pension funds. They owe certain fiduciary and other duties to their beneficiaries. Christian stewardship provides the context within which the NIBs invest and informs the manner in which these duties are performed.

The NIBs are signatories to the UK Stewardship Code, which encourages institutional investors to act as good stewards of their equity investments through active ownership (monitoring, engagement and voting).

The NIBs are signatories to the United Nations Principles for Responsible Investment (PRI) under which institutional investors pledge to incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes, and to be active owners, across all asset classes.

The NIBs recognise climate change as a distinct ethical investment issue and invest in line with a climate change policy.

### **Engagement**

The Pensions Board and Church Commissioner's Engagement Teams undertake engagement with companies in which we are invested, including voting at shareholder meetings.

The NIBs expect companies in which they invest to pay proper attention to human rights, responsible employment practices, sustainable environmental practice, fair treatment of customers and suppliers, sensitivity towards the communities in which they operate and best corporate governance practice. The engagement team engages with investee companies to seek improvement in ethical standards in these areas.

Policies adopted by the NIBs are listed on the EIAG website and they include specific policies on Executive Remuneration, Business and Engagement, Climate Change and Extractive Industries.

### **Investment exclusions**

The NIBs do not wish directly to profit from, or provide capital to, activities that are materially inconsistent with Christian values, and are also mindful of the danger of undermining the credibility, effectiveness and unity of the Church's witness were they to do so. A range of investment exclusions based on their ethical investment policies is therefore maintained and updated quarterly to reflect changes in markets.

Individual company engagements, undertaken by the Engagement Teams on behalf of the Pensions Board and Church Commissioners, may exceptionally lead to a recommendation to Trustee Committees to implement a specific exclusion in any line of business on ethical grounds. Such recommendations and exclusions will normally only occur after sustained dialogue and if the company does not respond positively to concerns about its practices. In such cases the NIBs will determine individually whether to disinvest if they hold securities issued by the company. The NIBs expect a recognition of responsibility and action within a clear timescale to improve, rather than perfection.

### **Ethical Investment**

The way the NIBs invest forms an integral part of the Church of England's witness and mission and their ethical policies and practice are shaped by expert advice from the Church's Ethical Investment Advisory Group (EIAG). The EIAG is an independent advisory body sponsored by the three national investing bodies of the Church of England.

When investing, and based on the advice of the EIAG, we apply exclusions to companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, and high interest rate lending. As a result of the Climate Change Policy

## *Ethical Investment Approach of the National Church Institutions*

a screen has been introduced that excludes companies that derive more than 10% of their total revenue from mining thermal coal and the production of oil from tar sands. The NIBs are continuing to implement their alcohol policy. The policy, which is currently implemented for companies that derive a certain percentage of revenue from alcohol, ensures that companies are only eligible for investment if they meet a set of minimum standards for the responsible marketing and retailing of alcohol.

However, ethical investment is also about what and how we invest. It is for this reason the Pensions Board's approach is to:

- Take a long-term view.
- Select investment managers who are able to analyse the environmental, social and governance issues relevant to their strategies.
- Act as good stewards of our investments including through voting at company general meetings and engaging actively with companies in which we invest.
- Promote ethical behaviour, corporate responsibility and sustainability in our interactions with investment managers, companies and government.

### **2018 highlights**

In May 2018 the Board decided to appoint its own full time Director of Ethics and Engagement to support its ambitions on ethical investment. Prior to this the Board hosted a joint engagement team that operated on behalf of the Church Commissioners and Pensions Board. The Board co-ordinates with the other National Investing Bodies (NIBs) and the Ethical Investment Advisory Group on policy and engagement matters.

In particular the Board has taken the lead on Climate Change and on the implementation of the ethical investment policy on extractive industries. Together with the Environment Agency's pension scheme, the London School of Economics and FTSE Russell, the Board established the Transition Pathway Initiative (TPI) in 2017, and continues to co-Chair the initiative. The TPI is a tool that allows asset owners and investors to monitor the public disclosures made by companies and to assess how they are aligned with the goals of the Paris climate agreement. The extraordinary success of the TPI continues. It is now being used by asset owners with over £10 trillion assets. A significant development in 2018 saw TPI being adopted as the main tool to assess company performance by the global engagement initiative, Climate Action 100+ (CA100+) which is a group of 310 investors managing over \$33 trillion in assets. There has never been a coordinated engagement of companies on the scale being undertaken by CA100+ and the Board is delighted that TPI will play such a prominent role in this initiative.

In July 2018 the General Synod endorsed the NIBs' strategy on climate change which will see continued engagement underpinned by the Transition Pathway Initiative (TPI). Importantly, the Board along with the other National Investing Bodies committed to disinvest from major fossil fuel producers that were not assessed by TPI by 2023 as on a demonstrably aligned path to below two degrees of warming.

A key achievement in 2018 was the negotiation of the first ever framework between an oil and gas company and their long-term investors about how the company will transition over the coming decades to operate in a low carbon economy. The Board together with one of our investment managers, Robeco from the Netherlands, led the negotiations on behalf of other investors from the Climate Action 100+ initiative. The result was a Joint Statement between Royal Dutch Shell and Investors that resulted in worldwide media coverage. The statement committed Shell to emission targets covering all their activities, including 'Scope 3' emissions that come from the use of their products, linking these targets to executive pay, regular reviews of the ambition of the targets as well as review of the lobbying of policy processes by the industry associations Shell are a member of. Following the announcement of the joint statement, the Editorial Board of the Financial Times published an editorial that acknowledged this as a first for investors and an oil and gas company and saw it as a model for the kind of agreements that need to be struck with other companies in the transition to a world aligned to the Paris climate agreement (Financial Times, 6<sup>th</sup> December 2018).

The role of corporate lobbying in public policy is highly influential. As a result the Board formed a partnership with the Swedish Public Pension Fund, AP7 (who have €60 billion of assets under management), to launch a focussed initiative engaging 56 European companies about lobbying activity by their industry associations, and alignment to the goals of the Paris climate agreement. The initiative developed a set of Investor Expectation on Corporate Climate Lobbying that was supported by the €23 billion backed European Institutional Investor Group on Climate Change (IIGCC). Companies across Europe were asked to commit to support the expectations and undertake reviews of the lobbying by the industry associations of which they were a member. Mining companies Anglo American, Rio Tinto and Glencore committed to undertake such reviews as well as oil and gas major Royal Dutch Shell.

The Board is honoured to host the Secretariat to the Church's Ethical Investment Advisory Group (the EIAG) which serves the NIBs. During 2018 the review of the EIAG's structure was completed and the EIAG held its last meeting in its current format in October. The Secretariat facilitated the establishment of a new Nominations Committee and supported that committee in the recruitment of new EIAG members, who met for the first time in March 2019. In parallel the Secretariat continued to support the EIAG in its programme of policy reviews and horizon scanning. The EIAG is now set up to provide expert advice to the NIBs to underpin their ethical and responsible investment goals.

### **Ethical investment agenda 2019**

In the next year the Board will be developing our ethical investment and engagement work, particularly through further support and use of the Transition Pathway Initiative (TPI) and engagement work on extractive industries. We are also strengthening our resources in this area and look forward to working with the restructured Ethical Investment Advisory Group, alongside our partners in the other National Investing Bodies.

Further information about the work of the EIAG is contained in its annual report which is available on the Church of England's website.



## **Appendix 3**

### **The Church of England Investment Fund for Pensions**

Annual Report and Financial Statements

31 December 2018

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## **Trustee's report**

The Church of England Pensions Board (the "Board"), as Trustee of The Church of England Investment Fund for Pensions ("CEIFP", or the "Fund") is pleased to present its annual report for the year ended 31 December 2018.

### **Scheme constitution and management**

The Fund was originally established in 1985 as a common investment fund for pension schemes administered by the Trustee. It is not a pension scheme nor a corporate body in its own right, but is a vehicle to pool the investments of the Board's four pension schemes (the "schemes") in order to diversify the schemes' investments, particularly for the smaller schemes which would not be able to benefit from the breadth of investments available when the assets are pooled. It is a bare trust that operates under a Trust Deed between the member schemes:

- The Church of England Funded Pensions Scheme ("CEFPS");
- Clergy (Widows and Dependents) Pensions Fund ("CWDPF") (closed on 18 December 2018);
- Church Workers Pension Fund ("CWPF"); and
- Church Administrators Pension Fund ("CAPF").

The CWDPF transferred its assets to the CEFPS on 18 December 2018 pursuant to a deed made under section 18A of the Clergy Pensions Measure 1961. Before this date it was a member, but without actively investing in the fund. After this date, it is no longer a member scheme of the CEIFP.

Responsibility for setting the overall strategy and managing the Fund rests with the Board as Trustee. The Board's structure and management is shown in Appendix 1.

The CEIFP is split into two pools: the Return Seeking Pool ("RSP") and the Liability Matching Pool ("LMP"). Each pool has different risk and return characteristics, which enables each pension scheme to be able to invest in the two pools in proportions that match its maturity and cash flow needs.

### **Unitisation**

The two pools are unitised, where each investing pension scheme is allocated a number of units, according to the amount it has invested. The number of units and value of the units is recalculated on a monthly basis to reflect the changing fair value of the underlying net assets, and the investment or disinvestment of each scheme.

Commentary on each scheme's strategy in holding different proportions of return seeking and liability matching units can be found in their respective annual reports.

Commentary on the performance of these pools is set out in this report. Further information on investment strategy and risk is shown in the notes to the financial statements.

### **Financial developments**

The Board approved the current asset allocation target for the CEIFP's Return Seeking Pool (RSP) in late 2016. The planned allocation significantly increases the Pool's diversification and reduces the volatility both in its own valuation and those of the pension schemes invested in the CEIFP.

The target is long term and will be implemented over the next ten years. The allocation to public equities will reduce from its level in 2016 of around 70% to 35% over that period. There will be a further increase in exposure to investments that rely more on contractual income and that are less liquid, such as infrastructure, various forms of debt, and private equity.

We have continued to work on the implementation of this plan in 2018 and into 2019. In particular, we have:

- Selected Cambridge Associates to manage a substantial allocation to private equity that will be equivalent to 7% of our long-term asset allocation
- Continued the CEIFP's programme of investment in infrastructure, committing to a new fund launched by EQT, with whom we are already invested, and to a new fund launched by KKR
- Appointed Generation Investment Management to manage a portfolio of sustainable public equities
- Appointed HIG Whitehorse to manage a portfolio of loans to private companies in the US
- Committed to a new fund managed by Blackstone that will take equity stakes in private equity firms (formally committed in 2019)
- Committed to a new sustainable growth private equity fund managed by Generation (formally committed in 2019)

There have not been any changes made to the Liability Matching Pool, which continues to be invested solely in corporate bonds.

## Trustee's report (continued)

### Financial developments (continued)

At the end of 2018, the Fund's assets were managed by 25 managers:

Fund manager	Description
Return Seeking Pool	
Acadian Asset Management	Global equities
Antin Infrastructure Partners	Pooled infrastructure fund
Arrowstreet Capital	Small company equities
Audax Group	Portfolio of private loans in the US
Basalt Infrastructure Partners	Pooled infrastructure fund
Bridgewater	Pooled Global Tactical Asset Allocation ("GTAA") fund
CBRE Global Investors	Property unit trusts
Colchester Global Investors	Emerging market debt
Copper Rock Capital Partners	Small company equities
DIF Management	Pooled infrastructure fund
Edinburgh Partners	Global equities
EQT Infrastructure Partners	Pooled infrastructure fund
First State Investments	Pooled infrastructure fund
Generation Investment Management LLP	Global equities
H.I.G Capital LLC	Portfolio of private loans in the US
I Squared Global Capital	Pooled infrastructure fund
KKR & Co. L.P.	Pooled infrastructure fund
Legal & General	Global equities passively tracking ethically adjusted MSCI World Index
Longview Partners	Global equities
Northern Trust Global Investors	Equity index futures account
Robeco Asset Management	Global equities
Trilogy Global	Emerging market equities
T Rowe Price	Emerging market equities
Winton	Pooled GTAA fund
Liability Matching Pool	
Insight	High quality corporate bonds

### Investment Performance

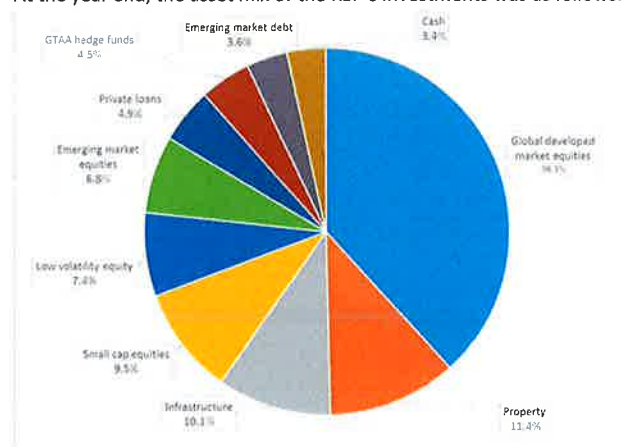
The RSP returned -2.2% (2017: +11.3%), and LMP -1.6% (2017: +4.3%), over 2018. The longer term returns of the pools to the end of 2018, after the deduction of fees, were as follows:

	1 yr % p.a.	3 yr % p.a.	5 yr % p.a.	10 yr % p.a.	15 yr % p.a.
Return Seeking Pool	-2.2	9.0	7.6	9.4	7.9
Liability Matching Pool	-1.6	4.5	6.1	7.1	7.2

The Trustee has considered the nature, disposition, marketability, security and valuation of the Fund's investments and consider them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

### Return Seeking Pool

At the year end, the asset mix of the RSP's investments was as follows:



## Trustee's report (continued)

### Investment Performance (continued)

The longer term returns to 31 December 2018 of the broad asset classes invested in by the RSP are set out below. All figures are net of fund management fees, and asset class returns are shown in Sterling terms, with the effect of the currency hedging programme shown separately:

	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.	15 years % p.a.
<b>Return Seeking Pool overall return</b>	<b>-2.2</b>	<b>9.0</b>	<b>7.6</b>	<b>9.4</b>	<b>7.3</b>
Public equities	-6.9	9.5	8.2	9.6	7.7
Property	10.7	8.9	10.6	8.1	-
Global tactical asset allocation	4.2	3.3	5.1	-	-
Infrastructure equity	7.5	14.0	8.9	-	-
Fixed income (emerging market sovereign debt and private debt)	11.5	12.8	-	-	-
Currency hedging programme (estimated effect)	-2.2	-1.0	-0.8	-0.3	-
<b>Comparators</b>					
UK RPI	2.7	3.1	2.4	3.0	3.0
FTSE 100	-8.7	6.7	3.9	8.3	6.6
MSCI AC World Index (local currency)	-3.8	11.9	9.9	10.8	8.6
FTSE Over 5-year Index Linked Gilts	-0.4	9.2	9.3	8.4	7.8

Equity market returns were disappointing last year, with the FTSE 100 returning -8.7% and the MSCI World -3.8%. The declines happened chiefly in the fourth quarter, although volatility had been higher than in recent years throughout 2018. The first quarter of 2019 saw a significant rally in share prices globally.

The Return Seeking Pool had just over 60% of its assets invested in public equities at the end of 2018. There was only a small direct exposure to UK-quoted companies in the portfolio at the end of the year (about 6%), with the gradual switch to a global emphasis that took place in previous years continuing to help returns. However, the Pool also had positions in Global small cap and emerging market equities, which fared badly, returning -10.1% and -9.8% respectively over the year, and therefore impacted negatively on the Pool's returns.

The alternatives to public equities, in particular property, infrastructure equity, private loans and emerging market debt, all performed well.

Sterling weakened against a basket of Yen, Euro and US Dollar over the year. The Pool was a net beneficiary of that weakness, having a global investment strategy, but the Board has a prudent policy of hedging half the exposures to those currencies and, consequently, some return was dissipated. We estimate this negative effect to have been equivalent to 2.2% of the Pool's value over the year.

The Board's pension scheme liabilities are denominated in Sterling, so a prudent stance on currency is taken to diminish the impact of Sterling strengthening against other currencies. Currently, half the Yen, Euro and US Dollar exposures in public equity, infrastructure and property are hedged back to Sterling, along with all of the US Dollar exposure in private loans. The currency exposures in the emerging market sovereign debt portfolio are managed actively by Colchester, as part of its mandate.

The Board invests in-line with an agreed ethical investment policy, which prohibits certain types of investment. Over the course of 2018, we estimate that these policies had a positive impact on our returns, with the difference between the return of the MSCI World Index and the ethically adjusted version of that index, used by our passive equity tracker, being 1.3% over the year. Over the last five years, the ethically adjusted index has returned 0.35% p.a. more than the unadjusted base index.

### Liability Matching Pool

At the year end and throughout the year, 100% of the assets were held in corporate bonds.

The longer term returns to 31 December 2018 are set out below (all figures are net of fund management fees):

	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.	15 years % p.a.
<b>Liability Matching Pool</b>	<b>-1.6</b>	<b>4.5</b>	<b>6.1</b>	<b>7.1</b>	<b>7.2</b>
<b>Comparator</b>					
FTSE Over 5 yr Index Linked Gilts	-0.4	9.2	9.3	8.4	7.8

### Investment management

The Trustee has delegated the responsibility for the management of investments to an Investment Committee, which is supported by professional in-house staff and external investment managers and advisors. The Trustee sets the investment strategy for the Fund after taking advice from the Fund's Investment Advisor. The Trustee has put in place investment mandates with its investment managers which implement this strategy.

## **Trustee's report (continued)**

### **Investment management (continued)**

In accordance with Section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been prepared for each of the schemes participating in the CEIFP by the Trustee. These incorporate the investment strategy for each scheme and are supported by documents that set out how the investment strategy is implemented. Copies of the SIPs may be obtained from the contact details listed in Appendix 1. The investment risks and the strategies in place to mitigate them are described in the notes to the financial statements.

### **Management and custody of investments**

The Trustee has appointed The Northern Trust Company Limited ("Northern Trust") to keep custody of the Fund's investments, other than pooled investment vehicles, where the manager makes its own arrangements for the custody of underlying investments.

### **Management charges**

Each manager charges fees based on the value of the funds it is managing. In 2018 these fees (including those charged by Northern Trust as custodian) were £8.0m (2017: £6.1m). This equated to 0.39% (2017: 0.30%) of the average value of the funds under management. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles.

### **Approval**

The Trustee's Report and Statement of Trustee's Responsibilities set out on page 5 were approved by the Trustee on 25 June 2019 and signed on its behalf by:

Clive Mather  
Chairman

A handwritten signature in black ink, appearing to read 'Clive Mather', with a long horizontal stroke extending to the right.

## **Statement of Trustee's Responsibilities**

### ***In respect of the financial statements***

The Church of England Pensions Board is Trustee of The Church of England Investment Fund for Pensions.

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. The Trustee is responsible for ensuring that those financial statements:

- give a true and fair view of the financial transactions of the Fund during the year and of the amount and disposition at the end of the year of its assets and liabilities;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- comply with the requirements of the Trust Deed dated 18 September 1985.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Fund will continue as a going concern.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

## **Independent Auditors' report to the Trustee of The Church of England Investment Fund for Pensions and the General Synod of the Church of England**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, The Church of England Investment Fund for Pensions (the "Fund") financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 December 2018, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

We have audited the financial statements, included in the Annual Report and Financial Statements, which comprise: the Statement of net assets attributable to unit holders as at 31 December 2018; the Statement of total return, and Statement of changes in net assets attributable to unit holders for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Fund, its operations and the other organisations on which it depends, and the wider economy.

#### **Reporting on other information**

The other information comprises all the information in the Annual Report and Financial Statements other than the financial statements and our auditors' report thereon. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the Trustee for the financial statements**

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared and for being satisfied that they give a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Fund, or has no realistic alternative but to do so.

##### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Independent Auditors' report to Trustee of The Church of England Investment Fund for Pensions  
and the General Synod of the Church of England (continued)**

***Use of this report***

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with the Clergy Pensions Measure 1961 and the General Synod and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants  
London

2576 2019

## Statement of total return for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Change in market value of investments	6	(85,798)	159,527
Change in market value of investment cash and other investment balances	6	225	3,300
Total change in market value		(85,573)	162,827
Income	4	51,938	43,487
Expenses	5	(8,020)	(6,066)
Changes in net assets attributable to unit holders from investment activities		(41,655)	200,248

## Statement of changes in net assets attributable to unit holders for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Opening net assets attributable to unit holders		2,055,373	1,846,774
Amounts receivable on issue of units	11	37,339	44,675
Amounts payable on cancellation of units	11	(9,989)	(36,324)
Net assets before change from investment activities		2,082,723	1,855,125
Changes in net assets attributable to unit holders from investment activities	11	(41,655)	200,248
Closing net assets attributable to unit holders		2,041,068	2,055,373

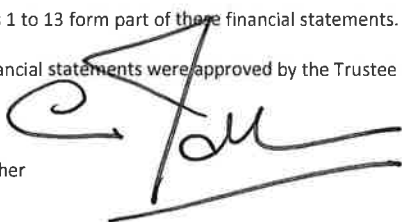
## Statement of net assets attributable to unit holders as at 31 December 2018

	Notes	2018 £000	2017 £000
<b>Investment assets</b>			
Equities	6	1,194,151	1,271,956
Bonds	6	138,937	139,039
Pooled investment vehicles	6	593,746	463,667
Derivative contracts	8	506	5,729
Other investments	6	270	-
Investment cash	6	121,458	120,760
Loan to the CEFPS	6	-	48,721
Other investment balances	6	22,107	9,393
Total assets		2,071,175	2,059,265
<b>Investment liabilities</b>			
Other investments	6	(141)	(184)
Derivative contracts	8	(23,893)	(669)
Investment cash	6	(1,131)	(313)
Other investment balances	6	(4,942)	(2,726)
Total investment liabilities		(30,107)	(3,892)
Total net assets attributable to unit holders	11	2,041,068	2,055,373
<b>Participants' funds</b>	11		
The Church of England Funded Pensions Scheme		1,580,262	1,582,405
Clergy (Widows and Dependants) Pensions Fund		-	-
The Church Workers Pensions Fund		371,203	382,984
The Church Administrators Pensions Fund		89,603	89,984
Total participants' funds		2,041,068	2,055,373

The notes 1 to 13 form part of these financial statements.

These financial statements were approved by the Trustee on 25 June 2019 and signed on its behalf by:

Clive Mather  
Chairman



## Notes to the financial statements

### 1. Legal status

The Church of England Investment Fund for Pensions ("CEIFP" or the "Fund") is not a pension scheme nor a corporate body in its own right. It was established in 1985 by the Church of England Pensions Board as a vehicle to pool the investments of the four pension schemes of which it is also Trustee, in order to diversify the schemes' investments, particularly for the smaller schemes which would not be able to benefit from the breadth of investments available when the assets are pooled.

### 2. Basis of preparation

The individual financial statements of the Fund have been prepared in accordance Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised November 2014) (the "SORP") insofar as they relate to common investment funds. In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee does not anticipate that the adoption of the revised SORP will have a material impact on the financial statements, however it will require certain additions to or amendments of disclosures in the financial statements.

### 3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### a) Income and expenditure

Income from equities and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/interest. Income from bonds, cash and short term deposits is accounted for on the accruals basis and includes income bought and sold on purchases and sales of bonds.

Where the Fund can separately identify investment managers' fees, these are accounted for on an accruals basis. Fees on pooled funds are not separately identifiable and so are not shown within expenditure.

Withholding taxes are included in investment income and are accrued on the same basis. Where withholding tax is not recoverable, this is shown as a separate expense within investment income.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

Transactions costs are included in the cost of purchases and sales proceeds. These include fees, commissions, stamp duty and other fees.

#### b) Investment valuation

Investment assets and liabilities are measured at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and offer prices for investment liabilities. Otherwise the closing single price or most recent transaction price is used.

Where an active market is unavailable, the Trustee adopt valuation techniques appropriate to the class of investments. The methods for determining fair value for the principal classes of investments are:

- **Equities**
  - Quoted equities which are trading on an active market are included at the quoted price which is usually bid price.
  - Unquoted equities are valued with reference to the latest dealing prices, valuations from reliable sources or net asset values.
- **Bonds** are included at the 'clean' price i.e. excluding any accrued income. Any accrued income is included in current assets.
- **Pooled investment vehicles** which are not traded on an active market have their fair value estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation. The net asset value is determined by the fund manager by applying fair value principles to the underlying investments of the pooled arrangement.
- **Derivatives**
  - **Forward contracts** are valued based on the gain or loss that would arise if the outstanding contract was matched at the balance sheet date with an equal and opposite contract.
  - **Futures contracts** are valued at the difference between exchange settlement prices and inception prices.

#### c) Foreign currencies

The Fund's functional currency and presentational currency is pounds sterling.

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in the market value of investments.

#### d) Unitisation

The two pools are revalued at the end of each month. The fund value is allocated between the unit holders according to their net accumulated unit holdings. New units are allocated on receipt of cash from unit holders at the unit price at the end of the preceding month. Units are cancelled on withdrawal of cash by unit holders at the unit price at the end of the preceding month.

## Notes to the financial statements (continued)

### 4 Income

	2018	2017
	£000	£000
Equities	30,818	26,074
Bonds	7,521	7,409
Pooled investment vehicles	12,677	9,723
Cash and Cash equivalents	587	259
Interest from loan to the CEFPs	335	22
<b>Total income</b>	<b>51,938</b>	<b>43,487</b>

### 5 Expenses

	2018	2017
	£000	£000
Investment managers' fees	8,020	6,066
<b>Total expenditure</b>	<b>8,020</b>	<b>6,066</b>

The Fund bears investment management expenses charged by the investment managers and custodians. Administration costs (including external audit fees) incurred by the Church of England Pensions Board in relation to the CEIFP are borne by the member schemes and are included in the administration expenses in the schemes' own financial statements.

### 6 Investments

	At 1 January	Purchases and derivative payments	Disposals and derivative receipts	Change in market value	At 31 December
	£000	£000	£000	£000	£000
Equities	1,271,956	635,297	(636,525)	(76,577)	1,194,151
Bonds	139,039	25,036	(19,401)	(5,737)	138,937
Pooled investment vehicles	463,667	173,595	(87,594)	44,078	593,746
Other investments	(184)	7,047	(6,731)	(3)	129
Net derivative contracts (note 8)	5,060	53,997	(34,885)	(47,559)	(23,387)
	1,879,538	894,972	(785,136)	(85,798)	1,903,576
Investment cash	120,447			222	120,327
Loan to the CEFPs*	48,721			-	-
Other investment balances~	6,667			3	17,165
<b>Total investments</b>	<b>2,055,373</b>			<b>(85,573)</b>	<b>2,041,068</b>

Analysed between:

Investment assets	2,059,265	2,071,175
Investment liabilities	(3,892)	(30,107)
<b>Total investments</b>	<b>2,055,373</b>	<b>2,041,068</b>

\* See note 13 for more information.

~ Other investment balances include accrued income, pending sales debtors and pending purchases creditors.

#### a) Transaction costs

Transaction costs are included in the costs of purchases and deducted from sales proceeds in the reconciliation above. Direct transaction costs incurred attributable to key asset classes are analysed as follows:

	2018			2017		
	Commission	Other charges	Total	Commission	Other charges	Total
	£000	£000	£000	£000	£000	£000
Equities	470	170	640	456	177	633
	470	170	640	456	177	633

Indirect transaction costs are also borne by the Fund through the bid-offer spread on pooled investment vehicles and charges made within these vehicles. It is not possible for the Trustee to quantify such indirect transaction costs.

## Notes to the financial statements (continued)

### 6 Investments (continued)

#### b) Pooled investment vehicles

	2018	2017
	£000	£000
Equities	2,178	1,112
Property	218,348	188,107
Cash	22,515	9,537
Hedge funds	89,053	83,731
Infrastructure	165,929	108,985
Private debt	95,723	72,195
Total pooled investment vehicles	593,746	463,667

### 7 Investment analysis

#### Investments of over 5% of net assets

The Fund holds one investment of over 5% of net assets, representing 5.48% of net assets (2017: none).

	2018
	£000
CBRE GIP GA Fund Class III Dis	111,862
	111,862

#### Employer related investments

There were no employer related investments as at 31 December 2018 (2017: none).

### 8 Derivatives

	2018			2017		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Futures – equities	219	(4,362)	(4,143)	621	(113)	508
Futures – bonds	77	(208)	(131)	92	(9)	83
Forward foreign currency contracts	210	(19,323)	(19,113)	5,016	(547)	4,469
Total derivatives	506	(23,893)	(23,387)	5,729	(669)	5,060

#### Objectives and policies for holding derivatives

The Trustee has authorised its investment managers to use derivative financial instruments in line with the investment strategy as outlined in the Trustee's report: *Futures are used where the Fund has high cash reserves and are measured against the strategic asset allocation. Futures are used to take short term exposures in markets or asset classes where it is more efficient than transacting in the underlying physical assets. Investment managers may take short or long positions to achieve their objectives.*

Forwards are used to mitigate currency risk by hedging 50% of equities assets denominated in US Dollar, Japanese Yen and Euro. They are also used actively in the emerging market sovereign debt portfolio to enhance returns.

#### a) Futures

The Fund had open futures contracts at year end, as summarised below:

	2018			2017		
Type of future	Exposure Value	Assets	Liabilities	Exposure Value	Assets	Liabilities
	£000	£000	£000	£000	£000	£000
Equities futures: UK	5,061	-	(79)	2,902	92	-
Equities futures: Overseas	78,622	219	(4,283)	41,625	529	(113)
Total equities futures	83,683	219	(4,362)	44,527	621	(113)
Bonds: UK	8,252	77	-	8,386	61	-
Bonds: Overseas	(6,479)	-	(208)	(6,055)	31	(9)
Total bonds futures	1,773	77	(208)	2,331	92	(9)

All contracts have expiry dates of three months after the year end. Included within other investment balances is an asset of £11,909,000 (2017: £2,771,000) in respect of initial and variation margins arising on futures contract open at the year end.

## Notes to the financial statements (continued)

### 8 Derivatives (continued)

#### b) Forwards foreign currency contracts

The Fund holds investments in a number of foreign currencies and its policy is to hedge within agreed limits, to offset the impact of foreign currency fluctuations.

At the end of the year, the Fund had the following open forward contracts in place:

Contract	Number of open contracts	Nominal value	Assets at 31 December 2018 £000	Liabilities at 31 December 2018 £000
<b>US Dollar</b>				
Forward to buy US Dollars	17	\$23,295,996	72	(72)
Forward to sell US Dollars	8	\$533,216,883	-	(15,317)
<b>Euros</b>				
Forward to buy Euros	6	€1,284,000	-	(2)
Forward to sell Euros	5	€126,948,551	-	(632)
<b>Japanese Yen</b>				
Forward to buy Japanese Yen	7	¥219,005,037	15	-
Forward to sell Japanese Yen	3	¥54,056,048	-	(3,283)
<b>Other currencies</b>				
Forward to buy other currencies	24		110	(10)
Forward to sell other currencies	11		13	(7)
			210	(19,323)

All contracts had maturity dates falling between 4 January 2019 and 14 March 2019.

### 9 Fair value hierarchy

The fair value of investments has been determined using the following hierarchy:

Level 1	Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
Level 2	Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
Level 3	Inputs are unobservable, ie for which market data is unavailable

The Fund's investment assets and liabilities have been included at fair value within these levels as follows as at 31 December 2018:

Level	1	2	3	Total 2018
Investments	£000	£000	£000	£000
Equities	1,193,409	-	742	1,194,151
Bonds	-	135,820	3,117	138,937
Pooled investment vehicles	24,694	218,348	350,704	593,746
Other investments	-	-	129	129
Derivatives contracts	(4,274)	(19,113)	-	(23,387)
Investment cash	120,327	-	-	120,327
Loan to the CEFPS	-	-	-	-
Other investment balances	7,214	9,951	-	17,165
Total investments	1,341,370	345,006	354,692	2,041,068

Analysed by pool:

Level	1	2	3	Total 2018
	£000	£000	£000	£000
Return Seeking Pool	1,340,790	273,000	354,016	1,967,806
Liability Matching Pool	580	72,006	676	73,262
Total investments	1,341,370	345,006	354,692	2,041,068

## Notes to the financial statements (continued)

### 9 Fair value hierarchy (continued)

The Fund's investment assets and liabilities have been included at fair value within these categories as follows as at 31 December 2017:

Level	1	2	3	Total 2017
Investments	£000	£000	£000	£000
Equities	1,271,956	-	-	1,271,956
Bonds	-	134,985	4,054	139,039
Pooled investment vehicles	24,008	165,655	274,004	463,667
Other investments	-	-	(184)	(184)
Derivatives contracts	591	4,469	-	5,060
Investment cash	120,447	-	-	120,447
Loan to the CEFPS	48,721	-	-	48,721
Other investment balances	5,499	1,168	-	6,667
Total investments	1,471,222	306,277	277,874	2,055,373

Analysed by pool:

Level	1	2	3	Total 2017
	£000	£000	£000	£000
Return Seeking Pool	1,468,620	234,460	277,874	1,980,954
Liability Matching Pool	2,602	71,817	-	74,419
Total investments	1,471,222	306,277	277,874	2,055,373

Infrastructure, Private debt and Hedge funds included in Level 3 are fair valued based on values estimated by underlying fund managers using accepted valuation methodologies and use of market information in the absence of observable market data.

### 10 Investment risk disclosures

The investment objective of the Fund is to maintain an investment portfolio with appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable by the member Schemes. FRS 102 requires the disclosure of information in relation credit and market risk:

**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.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk** is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk** is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk** is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy as described in the Trustee's Report which is determined after taking advice from professional investment advisors. The Trustee manages investment risks, including credit and market risk, within agreed risk limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers.

The Trustee has investment management agreements in place with a range of managers, detailed in the professional advisors list in Appendix 1. The agreements set out the guidelines for the underlying investments held and the day to day management is the responsibility of the manager, including direct management of credit and market risks.

The Trustee monitors the investment managers through day to day monitoring of the portfolios and annual meetings. In addition, the Trustee performs due diligence procedures before taking on a new investment manager.

## Notes to the financial statements (continued)

### 10. Investment risk disclosures (continued)

The table below summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Market risk			Total	Total
		Currency	Interest rate	Other price	2018	2017
					£000	£000
Equities	○	●	○	●	1,194,151	1,271,956
Bonds	●	●	●	●	138,937	139,039
Pooled investment vehicles	●	●	●	●	593,746	463,667
Other investments (net)	●	●	○	○	129	(184)
Derivatives contracts (net)	●	●	●	●	(23,387)	5,060
Investment cash	●	●	○	○	120,327	120,447
Loan to the CEFPS	●	○	○	○	-	48,721
Other investment balances	●	●	○	○	17,165	6,667
<b>Total investments</b>					<b>2,041,068</b>	<b>2,055,373</b>

In the table above, the risk noted affects the asset class [●] significantly, [●] partially or [○] hardly / not at all.

#### Investment strategy

The Trustee determines the investment strategy after taking advice from a professional investment advisor.

The Fund's two investment pools are unitised: a return seeking pool and liability matching pool. The proportion of units held by each member scheme is dependent on the individual requirements of each of the schemes. Investment risks are discussed in more detail in each Scheme's annual report and financial statements.

The Return Seeking Pool exists to ensure sufficiency of assets to pay benefits as they fall due. This portfolio is comprised of UK and overseas equities, corporate bonds, investment property, equity futures, and infrastructure investments.

The Liability Matching Pool's strategy is to ensure that the participating schemes can meet their liabilities as they fall due and invests in a portfolio of corporate bonds.

#### Credit Risk

The Fund is subject to credit risk through its investments in bonds, forward currency contracts, and cash balances. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

	2018	2017
	£000	£000
Bonds	138,937	139,039
Pooled investment vehicles	593,746	463,667
Derivatives: forwards	210	5,016
Investment cash	120,327	120,447
<b>Total investments exposed to credit risk</b>	<b>853,220</b>	<b>728,169</b>

The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's. There are currently no investments held below investment grade.

Credit risk arising on bonds held directly is mitigated by investing in corporate bonds which are rated at least investment grade.

The Trustee manages the associated risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by one issuer. Credit risk is mitigated on other investments by engaging with counterparties which are at least investment grade.

Credit risk arises on over the counter derivatives as they are not guaranteed by a regulated exchange and therefore the Fund is subject to risk of failure of the counterparty. There are collateral arrangements for these contracts but all counterparties must be at least investment grade.

The Fund's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors the investment managers through assessing investment performance, as reported by the custodian, and meeting with the manager annually.

Cash is held with financial institutions which are at least investment grade credit rated.

## Notes to the financial statements (continued)

### 10. Investment risk disclosures (continued)

#### Currency Risk

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee has decided to partly mitigate this risk by using a currency hedging strategy over half the exposure to the USD, Japanese Yen and Euro equities, and all the US Dollar exposure of private debt, using forward currency contracts.

The Fund's total net exposure by major currency at the year end was as follows:

	Gross exposure	Hedged	Net exposure 2018	Net exposure 2017
	£000	£000	£000	£000
Pounds sterling	380,367	727,008	1,107,375	916,522
US Dollars	944,969	(545,782)	399,187	570,299
Euros	316,016	(125,719)	190,297	149,290
Japanese Yen	95,818	(55,593)	40,225	85,711
Other currencies	323,011	86	323,097	329,082
Total investments (excluding forwards)	2,060,181	-	2,060,181	2,050,904
Forwards	(19,113)	-	(19,113)	4,469
Total investments	2,041,068	-	2,041,068	2,055,373

#### Interest rate risk

The Fund is subject to interest rate risk due to its bond investments in both the Return Seeking Pool and, primarily, Liability Matching Pool. If interest rates fall, the value of the bonds will rise to help match the increase in actuarial liabilities arising from a fall in discount rate. Similarly if interest rates rise the values of the bonds will fall, as will the actuarial liabilities because of an increase in discount rate.

#### Other price risk

The Fund's return seeking portfolio is subject to price risk which principally relates to direct and indirect equity holdings, bonds, equity futures and investment properties. The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Property and infrastructure pooled investment vehicles are illiquid and that is reflected in the structures and liquidity of funds that invest in them. Some of the funds held by the Fund are open-ended, where the manager will redeem within shorter pre-agreed timeframes, but most are closed-end and redemption will normally only happen when the funds are wound up at the end of their pre-agreed lives. The Fund's closed-end funds have a range of maturities. Units in both types of fund can be traded between investors privately, but this is rare and managers generally have veto over such transactions.

Private debt is illiquid, with funds becoming available when the underlying debt instruments mature. The instruments vary in maturity date, but usually mature within the next five years, giving access to the funds within a reasonable timeframe. There is unlikely to be a liquid secondary market for these debt instruments.

### 11. Member schemes' participation

The Fund has two pools, the Return Seeking Pool consisting mostly of equities, bonds, pooled investment vehicles and cash, and the Liability Matching Pool consisting mostly of corporate bonds.

Unitisation is the process of allocating units in the CEIFP to its participant member. The participant pension schemes purchase or dispose of CEIFP units in accordance with their operational requirements. The pricing of units is carried out by Northern Trust who also prepare monthly unitisation reports showing each participant's holdings in the CEIFP and transactions during the period.

The tables below show the movements in participants' holding in each of the two pools:

#### Return Seeking Pool:

	At 1 January 2018	Amounts receivable on issue of units	Amounts payable on cancellation of units	Change in net assets from investment activities	At 31 December 2018
	£000	£000	£000	£000	£000
The Church of England Funded Pensions Scheme	1,526,451	30,100	-	(31,373)	1,525,178
Clergy (Widows and Dependents) Pensions Fund	-	-	-	-	-
The Church Workers Pension Fund					
Pension Builder 2014	14,056	4,406	-	(452)	18,010
Pension Builder Classic	97,474	1,433	-	(1,991)	96,916
Defined Benefit Scheme – Employer section	199,637	-	(9,063)	(3,506)	187,068
Defined Benefit Scheme – Life Risk section	63,832	-	(926)	(1,558)	61,348
The Church Workers Pension Fund	374,999	5,839	(9,989)	(7,507)	363,342
The Church Administrators Pension Fund	79,504	1,400	-	(1,618)	79,286
Total Return Seeking Pool	1,980,954	37,339	(9,989)	(40,498)	1,967,806

## Notes to the financial statements (continued)

### 11. Member schemes' participation (continued)

Liability Matching Pool:

	At 1 January 2018 £000	Amounts receivable on issue of units £000	Amounts payable on cancellation of units £000	Change in net assets from investment activities £000	At 31 December 2018 £000
The Church of England Funded Pensions Scheme	55,954	-	-	(870)	55,084
Clergy (Widows & Dependants) Pension Fund	-	-	-	-	-
The Church Workers Pension Fund	-	-	-	-	-
Pension Builder 2014	-	-	-	-	-
Pension Builder Classic	6,944	-	-	(108)	6,836
Defined Benefit Scheme – Life Risk section	1,041	-	-	(16)	1,025
The Church Workers Pension Fund	7,985	-	-	(124)	7,861
The Church Administrators Pension Fund	10,480	-	-	(163)	10,317
Total Liability Matching Pool	74,419	-	-	(1,157)	73,262
Total net assets	2,055,373	37,339	(9,989)	(41,655)	2,041,068

### 12. Contingencies and commitments

In the opinion of the Trustee, the Fund had no contingent liabilities at 31 December 2018 (2017: nil).

As at 31 December 2018, the Board had made the following commitments

	2018 £m	2017 £m
Equities	-	13.3
Pooled investment vehicles (property)	-	1.5
Pooled investment vehicles (infrastructure)	242.9	119.6
Pooled investment vehicles (private debt)	66.3	-
Total commitments	309.2	134.4

### 13. Related party transactions

Four Board members (2017: four) who have retired from the schemes under normal service are in receipt of pensions from the schemes.

The Fund loaned £48.7m to the CEFPS on 23 November 2017. The unsecured loan was agreed on commercial terms: interest was payable on the last business day of each month at a rate equal to the Northern Trust Global Liquidity Funds sterling rate plus 5 basis points and the loan was repayable on demand at 24 hours notice. The loan was repaid on 14 June 2018. The Trustee took legal advice and can confirm the loan's purpose was to provide temporary liquidity, in compliance with Regulation 5(2) of the Occupational Pensions Schemes (Investment) Regulations 2005.