THE CHURCH OF ENGLAND

We regard climate change as an important issue for responsible investors that may pose financial risks to our investments.

The Church Commissioners support the Paris Agreement and the goal of the international community to restrict the global average temperature rise to well below two degrees Celsius.

Our disclosures on climate change are guided by the recommendations for asset owners of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures.

### Why not divest from fossil fuel investments now?

The Commissioners are often asked why they remain invested in carbon intensive companies, and don’t divest now. The reason is that we believe we can make a much greater impact in the world by staying invested in companies and changing them through direct engagement as a shareholder (where there is a belief that such engagement may lead to change), rather than divesting and handing our shares over to other investors, who may not have this objective. For example, 12 companies made changes to their strategy and operations in 2020 in response to the NIBs’ extensive engagement regarding alignment to the Paris Agreement, while nine that didn’t were divested. Yet the Commissioners are committed to divesting from all fossil fuel companies not aligned with the Paris Agreement goals by 2023.

The Commissioners focus on using their influence as a responsible investor to engage companies and policymakers on setting and supporting net-zero targets, thus bringing more constituents of their portfolio on to the same decarbonisation pathway. As asset owners with holdings across all aspects of the global economy, the Church Commissioners’ journey to net zero is reliant on influencing change in the real economy and policy environment as a whole, rather than implementing carbon-saving measures ourselves.

## Governance

The Commissioners' response to climate change is overseen by the Assets Committee and regularly features on the Assets Committee agenda. Items regularly discussed include the Transition Pathway Initiative, climate change engagement and low carbon investment. Climate change-related risks are considered in investment decision-making and incorporated into the Commissioners' risk register, which is reviewed for, and at, Assets Committee meetings.

## Strategy

The principal risk for the Commissioners is that our asset allocation, our asset managers or individual investment assets will be poorly positioned for the investment risks and opportunities as the transition to a low carbon economy proceeds. For our property, rural and forest assets we seek to take account of the physical risks associated with climate change, such as flooding and fire.

We face significant uncertainties around the direction of public policy, developments in technology and its uptake, and the nature and severity of the physical impacts of climate change. The most significant challenge for investment decision-making is that global public policy is not aligned with the target of the Paris Agreement to restrict the global average temperature rise to well below 2 degrees Celsius. Although it is intended that governments will ratchet up their commitments to emissions reduction - their 'Nationally Determined Contributions' - it is not clear that governments will do this, or will do so in time. Governments may also not live up to, or may renege upon, the commitments they have made.

In the long term - beyond 2050 - the biggest risk to the Commissioners is that the global average temperature rise is not restricted below 2 degrees Celsius causing economic damage that it will not be possible to avoid via asset allocation or investment selection.

We commissioned investment consultants Mercer to conduct climate scenario analysis on our portfolio in 2015.

# Risk management

The Commissioners' approach to climate change and climate-related risk management is set out in our Climate Change Policy. The management of climate-related financial risk and opportunity is also integrated into our RI Framework and included in our monitoring of, and engagement with, asset managers.

The key risk management tools we deploy are:

- active engagement with public policy makers, companies and our asset managers
- divestment from high carbon assets
- investment in low carbon assets
- monitoring our carbon footprint.

# Metrics and targets

In line with our objective to reduce our portfolio-related greenhouse gas emissions, the Commissioners use data from a third party, Trucost, to monitor the carbon footprint of as much as possible of our public equities portfolio and to make a comparison against our blended UK/global listed equities benchmark. This is available to view in the Responsible Investment section of our latest annual report.