Statement of Investment Principles

Church Workers Pensions Fund (CWPF)

1. Introduction

This statement sets out how the assets of the Church Workers Pension Fund (referred to as the "CWPF" or the "Scheme" in the rest of this document) are invested. It has been prepared by the Church of England Pensions Board (referred to as the "Trustee" in the rest of this document), which is the corporate trustee of the Scheme, with advice from its investment consultant.

The CWPF was established in 1953 in accordance with the Church of England Pensions Board (Powers) Measure 1952 and operates as a centralised occupational pension scheme.

The CWPF has three distinct sections:

- The Defined Benefit Scheme;
- Pension Builder Classic; and
- Pension Builder 2014

The Defined Benefit Scheme provides final salary defined benefit pensions. The two Pension Builder sections are also defined benefit due to the generation of guaranteed pension benefits. Both sections have elements of discretionary increases based on funding levels. Pension Builder 2014 was established to help small employers comply with auto-enrolment legislation. There is no defined contribution section in the Scheme.

Contributions into the Pensions Builder Scheme may be paid directly by members' employers, or by members themselves by deduction from salary.

Employers and members may participate in more than one section of the Scheme. Employers include diocesan boards of finance, cathedral chapters, mission agencies and other bodies connected with the ministry and mission of the Church of England.

For practical reasons, the employers have delegated their rights to consultation on a number of issues, including the content of this statement, to the Trustee. The Trustee engages with the sponsors regularly, and is happy to received feedback and suggestions on this and any other matter.

This Statement complies with the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

2. Objectives

The Trustee is responsible for the stewardship of the Scheme's assets. It has two main objectives, which are to ensure that:

(1) All beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme, and
(2) There are sufficient assets to meet the Scheme's liabilities as they fall due,

The Trustee therefore has a long term objective for the Scheme to be fully funded on a basis that incorporates gradual de-risking from the current strategy, to reduce the reliance on the Scheme's sponsors for additional contributions. The Trustee currently targets the end of March 2032 for this.

3. Investment Policy

The Trustee is responsible for how the Scheme's assets are invested. It takes advice from the Investment Consultant and the Scheme Actuary, and it is supported by an in-house investment team. The Trustee has established an Investment sub-Committee, which has relevant professional investment experience and is a mix of members of the Board and co-opted members.

The main Trustee Board determines investment strategy for the Scheme, which is the split in the Scheme's assets between safe investments for backing pensions already in payment, and assets invested for growth (return seeking assets).

The Investment Committee selects the asset classes for investment, appoints managers for them, monitors the managers' performance and removes them when necessary. It also directs the Scheme's cash flows, between asset classes and investment mandates.

Day to day investment decisions are delegated to the investment managers. They are appropriately qualified and their activities are defined by legally binding agreements.

4. Investment Beliefs

The Trustee has developed a set of investment beliefs, which underpin how the investments are made. The beliefs are set out in Appendix 1 to this statement.

The Trustee monitors the covenant of the Scheme's sponsors in order to assess their ability to support the Scheme. The Trustee believes the Scheme's sponsors are willing and able to underwrite its liabilities.

5. Investment management

The Trustee operates a common investment fund (The Church of England Investment Fund for Pensions, or CEIFP), comprising a Return Seeking Assets Pool and a Liability Matching

Pool. This investment vehicle allows the Board's pension schemes, including the CWPF, to pool their assets for greater efficiency and diversification than they would be able to achieve if investing on their own. The investment powers of the common investment fund are set out in the Schedule of Regulations of the CEIFP's Trust Deed and are in accordance with the investment powers of the Board as set out in the Church of England Pensions Measures 1961-2003.

The CEIFP accounts for all the return seeking investments of the CWPF and some of its liability matching assets. The Scheme may from time to time have assets that are invested outside the common investment fund. In particular, these would be assets that are held to back pensions in payment, primarily Gilts, and to hedge against inflation and changes in interest rates, primarily interest rate and inflation swaps and Gilt repurchase agreements (repos).

The assets of the DB Scheme are managed in two sections: a general fund and a Life Risk Pool, each of which has an investment strategy that reflects its purpose. The general fund receives contributions and invests in return seeking assets. The Life Risk Pool pays pensions and is funded by transfers from the general fund and its own investment returns from return seeking and liability matching assets. Transfers from the general fund to the Life Risk Pool are made when members retire. In addition, in the event that an actuarial valuation assesses a funding deficit in the Life Risk Pool, the Trustee may choose to levy all or some of this deficit from the general fund.

The Scheme's investment managers are listed on the Pensions Board's website. The Scheme's annual report carries information on investment performance, asset allocation and the main investment decisions taken during the year.

Investment management fees are charged as a proportion of the value of assets being managed and in some instances include an element based on investment performance. The fees are set on appointment, and reviewed regularly thereafter. The Trustee takes advice to ensure the fees are appropriate.

6. Types of investment

The common investment fund, the CEIFP, is well diversified, in terms of the assets it holds and the range of investment managers employed to manage those assets. The asset classes invested in by the Scheme, and the managers of them, are listed on the Board's website. The Trustee takes advice to ensure that the asset classes invested in by the Scheme are appropriate for it.

The split between return seeking and liability matching assets is determined by the characteristics of the Scheme, in particular its demographic profile, the spread of time over which its liabilities fall due, its funding level and the appetite for risk of the Trustee and the Scheme's sponsors.

The allocation between return seeking assets and inflation matching assets is determined as follows:

DB Scheme:

General fund	100% in return seeking assets
Life Risk Pool	30:70 split in the fund between return-seeking assets and liability matching assets (including the buy-in described below)
Pension Builder Classic	Liability matching assets to back pensions in payment with guaranteed pension increases (ie those benefits accruing post 5 April 1997). All other benefit payments backed by return seeking assets.
Pension Builder 2014	100% in return seeking assets

The Trustee holds an insurance contract ("buy-in") with Prudential. The contract pays 70% of the pension benefits in respect of members who had retired in 2014. Compared to return seeking assets, it removes significant investment risk from the assets backing that part of the payments and removes the risk associated with longevity too.

The Scheme may use synthetic instruments in a segregated fund (or via a pooled fund) to reduce risk or to improve operational efficiency.

The Scheme's allocation to specific assets is shown in its annual report.

7. Realisation of investments

The Defined Benefit Scheme currently pays out more in benefits than it receives in sponsor contributions, and therefore needs to hold some assets that can be liquidated at short notice. The Trustee considers that the Scheme's current asset allocation carries sufficient liquidity for the Scheme's needs.

Pension Builder Classic and Pension Builder 2014 receive net inflows of funds after the payment of benefits. The Trustee considers that those sections of the Scheme do not require immediate liquidity. So, while in practice the Scheme's asset allocation means it will have some highly liquid assets that can be sold at short notice, this is unlikely to be required for some years.

8. Ethical and responsible investment

The Trustee recognises that the beneficiaries and the sponsors of the Scheme are part of the Church of England and that the Scheme's investments should reflect that as far as possible without compromising its objectives. The Trustee wishes to exercise fully their responsibilities as asset owners.

The Trustee receives advice on the ethical implication of investments from the Ethical Investment Advisory Group ("EIAG") of the Church of England, including ethical investment policies that are developed for all Church of England investors.

The Trustee also values engagement with companies over responsible and ethical investment issues, and it considers that as a more effective means of exercising its stewardship responsibilities than disinvestment in many situations. Company engagement is carried out by the in-house Engagement Team that works jointly for the Church of England Pensions Board and the Church Commissioners.

The Engagement Team produces a list of restricted investments that reflects the ethical policies approved by the Trustee. Investment managers appointed by the Trustee are instructed to exclude these investments from their portfolios.

The Trustee expects companies in which the Scheme invests to demonstrate responsible employment and corporate governance practices; to be conscientious with regard to environmental performance and human rights; and to deal fairly with customers and act with sensitivity to the communities in which they operate. When appointing its investment managers, the Trustee takes into consideration how they incorporate analysis of companies' performance on environmental, social and governance ("ESG") issues into their stock selection.

The Ethical Investment Statement of the EIAG, which has been adopted by the Trustee, is adapted from time to time and can be found on the EIAG's website.

Before an investment is made in a pooled vehicle, where the Trustee cannot directly influence the selection of individual investments, the Trustee will satisfy itself that the proportion of restricted investments (as shown on the EIAG's restricted list) in the pooled fund is not material.

The Trustee intends that the Scheme should vote at all company meetings held by its investee companies. This is carried out by the in-house Engagement Team.

The Scheme, via the Church of England Pensions Board, is a signatory to UNPRI (the UNEP Finance Initiative Principles for Responsible Investment) and the Financial Reporting Council's Stewardship code. It is also a member of the IIGCC (Institutional Investors Group on Climate Change) and a co-founder of the Transition Pathway Initiative (TPI).

9. Risk

The Trustee recognises that it is possible to select investments for the Scheme that are similar to its estimated liability cash flows. However, in order to meet the Scheme's objectives within a level of contributions that its sponsors have indicated they are able and willing to make, the Trustee has agreed to take investment risk. This seeks to target a greater return than the matching assets would provide, whilst maintaining a prudent approach to meeting the Scheme's liabilities.

The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustee recognises that whilst increasing investment risk increases potential return over the longer term, it also increases the risk of a shortfall in return relative to that required to cover the Scheme's liabilities, as well as producing more short-term volatility in the Scheme's funding position.

Whilst taking investment risk could lead to volatility in the funding levels of the Scheme, the Trustee feels that this risk is acceptable in view of the potential benefits of the expected extra return. The additional return should work through ultimately to greater security for the members of the Scheme and lower costs for its sponsors over the long term.

The Trustee considers a wide range of specific risks, including, but not limited to, those set out in Appendix 2 to this statement. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each one.

The Trustee will from time to time use derivatives to manage risk and for efficient portfolio management. These will primarily be in the risk areas of currency, inflation, interest rates and longevity, and within the allocation to equities for efficient management.

10. Additional voluntary contributions (AVCs)

Any AVCs made by members of the DB Scheme of the CWPF are invested in the Pension Builder section of the CWPF. As described above, the Pension Builder section invests in the CEIFP.

AVCs made by members of Pension Builder Classic and Pension Builder 2014 are added to their account in their section of the Scheme.

Signed: Dr Jonathan Spencer
Chairman
Date: 2 March 2017