The Church of England Funded Pensions Scheme

Annual Report and Financial Statements 2017

Contents

Trustee's report

The Church of England Pensions Board (the "Board"), as Trustee of The Church of England Funded Pensions Scheme ("CEFPS", or the "Scheme"), is pleased to present the Scheme's annual report for the year ended 31 December 2017.

Scheme constitution and management

The Scheme was established in accordance with the Pensions Measure 1997 and commenced on 1 January 1998 to provide defined benefit pensions for clergy and others in the stipendiary ministry.

Benefits arising from service prior to 1998 are the liability of The Church of England Pensions Scheme ("CEPS"), which is wholly funded by the Church Commissioners. The Board administers the CEPS on behalf of the Church Commissioners and from the members' perspective, runs the CEFPS and the CEPS seamlessly, so that those with pension benefits earned from both schemes have a single point of contact and on retirement receive a single lump sum and consequently a single pension payment each month. The CEFPS makes these payments on behalf of the Church Commissioners and is fully reimbursed by thems for the pre-1998 element they are responsible for funding and these amounts are not included in the financial statements of the CEFPS.

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.

Other than the Scheme's liability driven investments ("LDI"), the Scheme's investments are principally held in The Church of England Investment Fund for Pensions ("CEIFP"). The CEIFP was established in 1985 as a common investment fund for the Board's pension schemes. The Scheme has been a member of the CEIFP since 1998. The CEIFP pools assets to take advantage of economies of scale and reduce risk through diversification, to which the smaller schemes would not have access on their own. The CEIFP's annual report and financial statements are attached at Appendix 3.

The CEIFP has two pools with differing risk and return characteristics that the Schemes can invest in: the Return Seeking Pool and the Liability Matching Pool. See the investment strategy section and the investment risk disclosures in Appendix 3 for more information.

Members can make additional voluntary contributions to secure additional benefits. These are invested in a segregated pool of investments and managed separately.

Rule changes

There were no changes to the Scheme's rules during 2017. A full copy of the Scheme's rules is available on request.

Financial developments

A significant development during the year was the introduction of Gilt repurchase agreements ("repos") into the Scheme's LDI account. This has allowed it to extend its hedging of interest rate and inflation risk to 30% each, from 15%, without having to purchase more index-linked gilts.

Information about the CEIFP's own financial developments in the year are set out in its Trustee's Report in Appendix 3.

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:

	Active	Deferred	Pensioners	Beneficiaries	**Total**
At 1 January	8,320	2,585	10,443	3,827	25,175
New members joining	429	-	-	-	429
Members retiring	(375)	(141)	516	-	-
Members leaving prior to pension age	(218)	218	-	-	-
Deaths	(15)	(3)	(431)	(267)	(716)
Re-entrants	100	(98)	-	-	2
New spouse and dependant pensions	-	-	-	249	249
Ceased (eg dependant children turning 18/23)	-	-	-	(10)	(10)
Other	(4)	(13)	(2)	-	(19)
Total at 31 December	**8,237**	**2,548**	**10,526**	**3,799**	**25,110**

Note: Total number of pensioners receiving pensions and deferred members in the table above include both the CEFPS and the CEPS.

Pension Increases

The CEFPS rules state that increases will be at the rate of the change in the Retail Prices Index ("RPI") up to 5% in respect of benefits from service prior to 1 January 2008 and RPI up to 3.5% in respect of benefits from service from 1 January 2008 onwards. The change in RPI for the period September to September is the reference period for increases in the CEFPS from 1 April in the following year.

The increase in RPI for the year to 30 September 2017 was 3.9% (2016: to 30 September: 2.0%). Pensions in payment on 1 April 2018 increased therefore by 3.9% (2017: 2.0%). There were no discretionary increases.

Trustee's report (continued)

Member benefit augmentation
At the point of retirement, the benefits payable to certain pensioners are enhanced on grounds of ill-health or financial need. The cost of the augmented benefits is met by the Church Commissioners and the dioceses as part of their charitable activities.

Transfers
As prescribed by statutory regulations, all transfer payments were calculated in accordance with the methods and assumptions approved by the Scheme's Actuary.

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. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions determined by the Trustee, after following actuarial advice and having consulted with the responsible bodies (see note 1), and set out in the Statement of Funding Principles, which is available to Scheme members on request.

These liabilities are considered by the Scheme's Actuary who carries out a full actuarial valuation of such liabilities every three years. This valuation considers the funding position of the Scheme and the level of contributions payable.

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

- the value of the Technical Provisions was £1,544 million; and
- the value of the net assets (excluding AVCs) was £1,308 million; and
- the deficit was £236 million.

The next valuation is due to be carried as at 31 December 2018.

The method and significant actuarial assumptions used to determine the technical provisions are set out below (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method
The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount rate	4.6% p.a.
RPI	3.2% p.a.
Pension increases:	
Increasing in line with RPI (capped at 5%)	3.1% p.a.
Increasing in line with RPI (capped at 3.5%)	2.6% p.a.
Rate of increase of pensionable stipends	3.2% p.a.
Post-retirement mortality	80% of the S1NMA and S1NFA mortality tables projected from 2007 in line with the CMI 2015 core projections with a long term annual rate of improvement of 1.5% p.a. for both males and females

As a result of this last actuarial valuation, as at 31 December 2015, the Trustee set the recovery period (the period over which the actuarial deficit is targeted to be eliminated) at 8 years from 1 January 2018. The contribution rates of pensionable stipend were set as shown in the table below:

	From 1 January 2018		From 1 January 2017 to 31 December 2017		To 31 December 2016
	Dioceses and Church Commissioners	*All other responsible bodies*	*Dioceses and Church Commissioners*	*All other responsible bodies*	*All responsible bodies*
	%	%	%	%	%
Normal contributions	26.5	26.5	24.3	24.3	24.6
Deficit contributions	11.9	11.9	14.1	14.1	14.1
Contributions towards administration expenses	*1.5	**1.5	*1.5	**1.5	1.2
Total contribution	39.9	39.9	39.9	39.9	39.9

* For the dioceses and the Church Commissioners, the 1.5% of pensionable stipends consists of 1.2% towards the cost of administering the Scheme, and 0.3% which is passed to the Board for the cost of administering the CEPS.

** For the other Responsible Bodies, 1.5% of pensionable stipends less an annual rebate. The annual rebate is currently £70 pa per full-time member in active service each 31 December.

Trustee's report (continued)

Actuarial liabilities (continued)

In reaching its decision on the contribution rate, the key points taken into account by the Trustee were:

- the modifications to the benefit structure of the Scheme implemented on 1 January 2011;
- increasing life expectancy, with the retention of the mortality tables used at the last valuation, and additional provision for some continuing improvement in the future; and
- an assumption that, over the long term, stipends will increase by the increase in the RPI.

In view of the Scheme's increasing maturity, the investment strategy is to continue the de-risking of the Scheme's investments, moving the fund from being invested 100% in return-seeking assets to a 70:30 split between liability matching assets and return-seeking assets by the end of 2030.

Investment management

Investment strategy and principles
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 Scheme after taking advice from the Scheme's Investment Advisor. The Trustee has put 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") has been prepared for the Scheme by the Trustee. This incorporates the investment strategy and is supported by documents that set out how the investment strategy is 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 Scheme holds £227.2m (2016: £229.2m) of its liability matching assets outside the CEIFP in its own LDI account. The gross value of the LDI assets is £458.3m (2016: £229.2m), with repos and cash borrowings from the CEIFP of £231.1m (2016: £nil). Apart from a separate cash reserve (held to meet the monthly pension commitments) and the AVC investments, all other assets are held in CEIFP units.

The CEIFP's custody arrangements are described in the CEIFP's Trustee Report in Appendix 3. The Trustee has appointed The Northern Trust Company Limited ("Northern Trust") to keep custody of the Scheme's investments, other than pooled investment vehicles ("PIV"), where the manager makes its own arrangements for the custody of underlying investments.

Investment performance
At the end of 2017, the Scheme held 84.2% (2016: 82.4%) of its net assets (excluding AVCs) in the CEIFP's Return Seeking Pool, which comprises public equities, private infrastructure equity, private debt, emerging market sovereign debt, property unit trusts, hedge funds and cash; and 3.1% (2016: 3.3%) in the CEIFP's Liability Matching Pool, which consists solely of corporate bonds. Detailed information on the performance, management and investment risks of the CEIFP is set out in Appendix 3.

The remaining 12.5% (2016: 14.1%) of the Scheme's net assets were in its own LDI account.

Long-dated Gilt issues were under pressure during the year. The Scheme has a bias to longer maturities, albeit that was reduced during the year, resulting in its LDI account returning -0.9% in 2017. The FTSE Over 5-year Index-linked Gilt Index returned 2.5% over the year. The Scheme's LDI account has, however, returned 22.2% from its inception in May 2016 to the end of 2017. The LDI was implemented less than three years ago so longer term returns are not available.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme'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.

Additional Voluntary Contributions ("AVCs")
AVCs are invested separately in vehicles chosen in the light of professional advice with particular regard being given to investment performance and the level of administration costs as well as the financial strength of the provider.

Since 1 April 2011, Legal and General Investment Management ("Legal and General") have been the sole AVC provider for contributions received after this date.

Members are provided a wider range of investment choices with Legal and General:

- a core lifestyle arrangement with two options including ethically invested funds; and

- a menu consisting of a more comprehensive range of UK and global passively managed funds including both UK and global ethically invested funds, balanced equity funds, corporate bond funds, gilts funds, and a cash fund.

At the end of 2017 2,587 members (2016: 2,543) had contributions invested under the voluntary arrangements of whom 967 (2016: 963) were current contributors.

Trustee's report (continued)

Employer related investments
Details of employer related investments are given in note 16 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 set out on page 7 were approved by the Trustee on 27 June 2018 and signed on its behalf by:

Jonathan Spencer
Chairman

Statement of Trustee's Responsibilities

The Church of England Pensions Board is Trustee of The Church of England Funded Pensions Scheme.

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 the preparation of the financial statements 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 Church of England Funded Pensions Scheme 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 Funded Pensions Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2017, 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 2017; 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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which 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 Scheme'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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a 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 preparing 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.

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. This description forms part of our auditors' report.

Independent Auditors' report to the Trustee of The Church of England Funded Pensions Scheme 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 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2018

Fund Account
for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Contributions			
Employer contributions	4	73,224	73,371
Employee contributions	4	2,833	3,049
Transfers in		1,437	1,054
Other income	4	2,310	2,267
Total contributions and other income		79,804	79,741
Benefits			
Benefits paid or payable	5	(41,007)	(37,469)
Payments to and on account of leavers	6	(17)	(36)
Transfers out		(2,735)	(1,432)
Administrative expenses	7	(2,496)	(2,740)
Total benefits and other expenses paid		(46,255)	(41,677)
Net additions from dealings with members		33,549	38,064
Returns on investments			
Investment income	8	1,641	140
Change in market value of investments	9	151,256	286,297
Investment management expenses		(182)	-
Net returns on investments		152,715	286,437
Net increase in fund		186,264	324,501
Opening net assets		1,654,538	1,330,037
Closing net assets		1,840,802	1,654,538

Notes 1 to 18 form part of these financial statements.

Statement of Net Assets available for benefits as at 31 December 2017

	Notes	2017 £000	2016 £000
Investment assets			
Pooled investment vehicles (CEIFP)	9	1,582,405	1,396,782
Pooled investment vehicles (other)	9	4,637	189
Bonds	9	452,511	228,994
AVC investments	9	27,632	25,220
Other investment balances	9	1,189	-
Cash	9	17	10
Total investment assets		2,068,391	1,651,195
Investment liabilities			
Amounts payable on repurchase agreements	9	(182,407)	-
Short term loan from the CEIFP	9	(48,721)	-
Total investment liabilities		(231,128)	-
Total net investments		1,837,263	1,651,195
Current assets	10	6,099	5,976
Current liabilities	11	(2,560)	(2,633)
Net current assets		3,539	3,343
Total net assets available for benefits		1,840,802	1,654,538

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 in the report on actuarial liabilities on page 4, and these financial statements should be read in conjunction with this report.

Notes 1 to 18 form part of these financial statements.

These financial statements were approved by the Trustee on 27 June 2018 and signed on its behalf by:

Jonathan Spencer
Chairman

Notes to the financial statements

1. Legal status

The Church of England Funded Pensions Scheme (the "Scheme") is an occupational pension scheme established under trust. The Scheme was established in accordance with the Pensions Measure 1997 to provide retirement benefits to the clergy and others in the stipendiary ministry.

Many clergy (eg parish priests) are office holders rather than employees so those organisations responsible for paying their stipends and pension contributions are known as 'responsible bodies'. For consistency with the Pensions SORP and comparability with the financial statements of other pension schemes, these financial statements use the term 'employer' for both actual employers as well as for the 'responsible bodies'. Likewise, the term 'employee' in these financial statements means actual employees as well as office holders and other stipendiary clergy who are members of the Scheme.

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

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 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").

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) Contributions

Employer contributions, which consist of both normal and deficit contributions, and administration costs are accounted for on the accruals basis in the payroll month to which they relate.

Employer contributions towards supplementary pension payments are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, when received.

Employee contributions for AVCs are accounted for on the accruals basis, in the payroll month to which they relate.

b) Benefits

Where members can choose whether to take their benefits as a full pension or a lump sum with reduced pension, retirement benefits are accounted for on the accruals basis on the later of the date of retirement and the date the option is exercised.

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 retirement, death or leaving the Scheme, as appropriate.

c) Transfers to/from other pension schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers, or payable to the pension schemes of new employers for members who have left the Scheme. They are accounted for on the accruals basis, which is generally when funds are transferred unless the Trustee of the receiving scheme have agreed to accept the liability in advance of receipt of funds.

d) Administrative and other expenses

Administrative and investment management expenses are accounted for on the accruals basis.

e) Investment income and expenditure

Most of the Scheme's investments are units in the CEIFP, which is an accumulation fund. The CEIFP's net investment income, after paying management and transaction fees is retained within the fund for reinvestment. The value of the Scheme's holding in CEIFP units consequently is affected by the change in market value of investments, comprising all profits and losses realised on sales of investments and unrealised changes in market value, income and expenditure.

The Scheme's AVC investments are also in accumulation funds, which do not pay out investment income.

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

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Investment valuation
The Scheme values its units in the CEIFP at the unit prices for the Return Seeking Pool and the Liability Matching Pool, provided by the custodian Northern Trust. These prices are calculated using the number of units held and the fair value of the CEIFP's underlying investment assets and liabilities. Where separate bid and offer prices are available for the underlying investment assets and liabilities, 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.

The AVC investments are valued based on prices reported by the AVC providers.

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.

g) Repurchase agreements
Under repurchase (repo) agreements - the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the Financial Statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability.

h) Foreign currencies
The Scheme's functional currency and presentational currency is pounds sterling.

4. Contributions

	2017 £000	2016 £000
Employer contributions		
Normal	46,115	46,472
Deficit	26,893	26,637
For supplementary pensions and augmentation grants	173	186
Other	43	76
Total employer contributions	73,224	73,371
Employee contributions		
AVC	2,833	3,049
Total employee contributions	2,833	3,049
Other income		
Contribution for administration costs	2,310	2,267
	2,310	2,267

Deficit funding is described in more detail in the Trustee's Report, (see page 4).

The Board, from its General Purposes Fund, and the Church Commissioners reimburse the CEFPS the cost of paying supplementary pensions and augmentation grants paid to certain pensioners and surviving spouses/civil partners of deceased members who are in particular need, in addition to standard benefits payable (see note 5).

Notes to the financial statements (continued)

5. Benefits paid or payable

	2017 £000	2016 £000
Benefits		
Pensions (including supplementary pensions and augmentation grants)	26,796	24,459
Retirement lump sums	13,161	12,216
Lump sum death benefits	1,045	762
Commutations	5	32
Total benefits	41,007	37,469

6. Payments to and on account of leavers

	2017 £000	2016 £000
Purchase of annuities	17	36
Total payments to and on account of leavers	17	36

7. Administrative expenses

All costs relating to the administration of the Scheme are paid by the Board in the first instance and recovered from the Scheme by way of an administration charge. This covers professional fees, staff costs and shared service costs. A breakdown of the costs is shown below:

	2017 £000	2016 £000
Actuarial fees	223	329
Audit fees	51	38
Pension levy	97	87
Investment services	440	259
Legal advice	85	37
Administration costs	1,600	1,990
Total administrative expenses	2,496	2,740

8. Investment income

	2017 £000	2016 £000
Fixed income	2,380	120
Other investment	-	1
Deposit interest	6	19
Other investment income	9	-
Amount payable on repurchase agreements	(732)	-
Amount payable on loan from CEIFP	(22)	-
Total net investment income	1,641	140

9. Investments

Repurchase agreements

At the year-end, amounts payable under repurchase agreements amounted to £182.4m (2016: £nil). Within Bonds reported in Scheme assets, £188.0m (2016: £nil) are held by counterparties under repurchase agreements.

Short term loan from the CEIFP

See note 17 for more information.

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.

The Scheme incurred £182,000 (2016: £47,000) in fees from Blackrock. Custody charges are negligible.

The Scheme's directly held investments are registered in the UK.

See Appendix for detail about the CEIFP.

Notes to the financial statements (continued)

9. Investments

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

	At 1 January 2017 £000	Additions £000	Disposals £000	Change in market value £000	At 31 December 2017 £000
Pooled investment vehicles (CEIFP)					
Return seeking pool	1,343,135	39,650	(6,500)	150,166	**1,526,451**
Liability matching pool	53,647	-	-	2,307	**55,954**
Total pooled investment vehicles (CEIFP)	1,396,782	39,650	(6,500)	152,473	**1,582,405**
Pooled investment vehicles (other)	189	63,242	(58,794)	-	**4,637**
Bonds	228,994	258,771	(31,659)	(3,595)	**452,511**
AVC investments					
Legal & General Group AVC scheme	15,966	4,086	(2,691)	1,615	**18,976**
Legal & General Company sponsored	5,082	63	(711)	390	**4,824**
Prudential	3,102	-	(400)	318	**3,020**
Equitable Life	1,070	4	(317)	55	**812**
Total AVC investments	25,220	4,153	(4,119)	2,378	**27,632**
Cash	10				**17**
Amounts payable on repurchase agreements	-				**(182,407)**
Short term loan from the CEIFP	-				**(48,721)**
Other investment balances	-				**1,189**
Total net investments	1,651,195			151,256	**1,837,263**

10. Current assets

	2017 £000	2016 £000
Debtors		
Employer contributions	487	99
Trustee	660	-
Church Commissioners	36	134
Accrued income	-	69
Other debtors	193	178
Total debtors	1,376	480
Cash	4,723	5,496
Total current assets	6,099	5,976

Amounts owed from the Trustee represent money charged by the Board in advance towards the administrative expenses the Board incurs on the Scheme's behalf (see note 7).

11. Current liabilities

	2017 £000	2016 £000
Unpaid benefits	214	451
Trustee	-	332
Tax payable – PAYE and NI	1,614	1,610
Other creditors	732	240
Total current liabilities	2,560	2,633

Amounts owed to the Trustee represent money payable to the Board towards the administrative expenses the Board incurs on the Scheme's behalf (see note 7).

Notes to the financial statements (continued)

12. Fair value of investments

Paragraph 3.22.5 of the Pensions SORP allows schemes that participate in a common investment fund to reference to its investment fair value hierarchy. As such, the fair value hierarchy of the Scheme's investment in the CEIFP is shown in Appendix 3.

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

Category	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, ie for which market data is unavailable.

The Scheme's investment assets and liabilities, other than its investment in CEIFP units, have been included at 31 December at fair value within these categories as follows:

	1 £000	2 £000	3 £000	Total £000
At 31 December 2017				
Pooled investments vehicles (CEIFP)	(see hierarchy in the CEIFP in Appendix 3)			**1,582,405**
Pooled investments vehicles (other)	4,637	-	-	**4,637**
Bonds	-	452,511	-	**452,511**
AVC investments	-	-	27,632	**27,632**
Cash and cash equivalents	17	-	-	**17**
Amounts payable on repurchase agreements	-	(182,407)	-	**(182,407)**
Short term borrowings	-	(48,722)	-	**(48,722)**
Other investment balances	-	1,189	-	**1,189**
Total investments	4,654	222,571	27,632	**1,837,262**

	1 £000	2 £000	3 £000	Total £000
At 31 December 2016				
Pooled investments vehicles (CEIFP)	(see hierarchy in the CEIFP in Appendix 3)			**1,396,782**
Pooled investments vehicles (other)	-	-	189	**189**
Bonds	-	228,994	-	**228,994**
AVC investments	-	-	25,220	**25,220**
Cash and cash equivalents	10	-	-	**10**
Total investments	10	228,994	25,409	**1,651,195**

13. Investment risk disclosures

The investment objective of the Scheme is to maintain an investment portfolio with appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The Trustee sets the investment strategy for the Scheme as detailed in the Statement of Investment Principles (SIP). 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.

Notes to the financial statements (continued)

13. 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	**2017**	**2016**
					£000	**£000**
Pooled investment vehicles (CEIFP)						
Return seeking pool	(see Investment Risks for the CEIFP in Appendix 3)				1,526,451	1,343,135
Liability matching pool					55,954	53,647
Total Pooled investment vehicles (CEIFP)					1,582,405	1,396,782
Pooled investment vehicles	●	○	●	●	4,637	189
Bonds	◑	○	◑	◑	452,511	228,994
Total LDI investment					457,148	229,183
AVCs	(not considered significant in relation to overall Scheme risks)				27,632	25,220
Cash and cash equivalents	◑	○	◑	○	17	10
Amounts repayable on repurchase agreements	◑	○	●	●	(182,407)	-
Short term borrowings	○	○	◑	○	(48,721)	-
Other investment balances	◑	○	◑	○	1,189	-
Total investments					1,837,263	1,651,195

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

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described below 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 Scheme's strategic investment objectives for its directly held investments and through the CEIFP for its pooled CEIFP investments, which are described in Appendix 3.

These investment objectives and risk limits for directly held investments are implemented through the investment management agreement in place with the Scheme's investment manager. The agreement sets 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 manager through day to day monitoring of the portfolio, quarterly written updates from the manager and annual meetings. In addition, the Trustee performs due diligence procedures before taking on a new investment manager and the Trustee's Investment Consultant also independently assesses and monitors the fund managers.

Investment strategy

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 to inflation matching assets is calculated as a percentage of pensioner liabilities, moving from 33% to 70% by December 2030.

Most of the liability matching investments are held in a separate LDI account, which is constructed to match future expected beneficiary payments. A small proportion of the liability matching investments remain in the CEIFP. All of the return seeking investments continue to be held wholly within the CEIFP. The investment risks faced by the CEIFP are described in Appendix 3.

Credit Risk

The Scheme is subject to credit risk through its investments in bonds, repurchase agreements, short term borrowings and cash balances. The Scheme 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.

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 government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade.

The Scheme's holdings in pooled investment vehicles (other) 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.

Notes to the financial statements (continued)

13. Investment risk disclosures (continued)

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

Credit risk on repurchase agreements is mitigated through collateral arrangements and at the year end £188.0m (2016: £nil) had been received from counterparties as collateral. Collateral comprises UK gilts.

Currency Risk
The Scheme is subject to a small amount of currency risk because its pooled investment vehicle (other) is invested in overseas assets. This risk is not considered to be significant for the scheme, due to the very small proportion of the Scheme's net assets held in this category.

Interest rate risk
The Scheme is subject to interest rate risk due to its bonds holdings and because the discount rate used to measure the Scheme's actuarial liabilities are derived from prevailing interest rates.

To mitigate this risk, the Scheme invests in a portfolio of assets that generate predictable long term cash flows that will tend to rise in value if interest rates fall. If interest rates fall, the value of the bond portfolio will rise, while the value of the actuarial liabilities also increase as the discount rate falls. Similarly if interest rates rise, these investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

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

Investment risk in relation to AVC investments
Investment risk relating to the AVC investments is not considered to be significant in relation to the overall investment risks of the Scheme.

14. Concentration of investments
The following investments account for more than 5% of the Scheme's net assets at the year end:

	2017		2016	
	£000	%	£000	%
CEIFP return seeking pool	1,526,451	82.9	1,343,135	81.2
UK Treasury 0.125% 2058 Index Linked	161,177	8.8	121,393	7.3
UK Treasury 2.5% 2065 Index Linked	94,973	5.2	-	-
UK Treasury 0.125% 2068 Index Linked	75,013	4.1	107,600	6.5

15. AVC investments
Most AVCs are invested in a Group AVC Scheme with Legal and General Investment Management which provides wide investment choice and a single administration platform. Prior to this, AVC contributions were invested with Prudential, Equitable Life Assurance Society and another Legal & General fund and investments continue to be held in these AVC schemes.

16. Employer related investments
There were no employer-related investments at the year end except for £87,000 (2016: £250,000) of late employer contributions, which represent 0.005% (2016: 0.15%) of total net assets.

17. Related party transactions
One Board member (2016: one) who has retired from service under the Scheme is in a receipt of a pension on normal terms.

The Scheme borrowed £48.7m from the CEIFP on 23 November 2017 to increase liquidity of the Scheme to enable it to repay some of its repurchase agreements ahead of their maturity date and to increase collateral. The unsecured loan was agreed on commercial terms: interest is 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 repayable on demand at 24 hours notice. The loan was repaid on 15 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.

18. Post balance sheet events
The Pensions (Pre-consolidation) Measure received Royal Assent on 10 May 2018. The Measure enables the Board to transfer all the assets of the Clergy (Widows and Dependants) Pensions Fund to the Scheme. It also puts an obligation on the Board to continue to pay any beneficiaries (existing or future) either out of the Scheme or by alternative arrangements e.g. through an insurance policy.

Actuary's certification of schedule of contributions

LCP INSIGHT CLARITY ADVICE

Actuary's certification of schedule of contributions

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: The Church of England Funded Pensions Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2015 to be met by the end of the period specified in the recovery plan dated 21 December 2016.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 21 December 2016.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature: ..... **Date:** 21 December 2016

Name: Aaron Punwani **Qualification:** FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London W1U 1DQ