WELCOME

During 2017 we continued to deliver retirement services to the Church of England and particularly those who work for or serve it. It was a year in which we delivered on the decisions taken in previous years, and one which, in the latter part brought shock and sadness to the Board and its staff.

Towards the end of 2016 we took the extremely difficult decision to close Manormead Nursing Home and so the early part of 2017 was focussed on ensuring that our former residents and their families were well supported as they moved to their new homes.

We continue to assist around 2,500 retired clergy households through our CHARM housing scheme, and this year have seen an increasing number of people approach us well in advance of retirement to consider their options and, where appropriate, reserve a property. Our focus is on responding to user needs, at what can be a difficult time in their lives, and providing good quality, affordable homes. 2017 saw the development of a new asset strategy as well as considerable work to access further financing which culminated in the issue of a new £50m fixed rate bond in April 2018.

Each year we carry out a valuation of one of the pension schemes for which we act as trustee. At the end of 2016, it was the turn of the Church Worker’s Pensions Fund. Formally, this fund operates as a centralised occupational pension scheme for over 450 employers of lay staff connected with the ministry and mission of the Church of England, including diocesan offices, and lay staff working within parishes, amongst others. It is a complex scheme with several sections, and has grown considerably over recent years as employers have looked for a pension fund which fulfilled the requirements of the Government’s desire to see all employees enrolled in an appropriate pension scheme. Due to changed economic circumstances, some employers faced the prospect of an unanticipated negative impact on the funding position of their section of the fund. We agreed with each employer a plan to address the funding of their sections and completed the valuation early in 2018.

Ethical investment considerations are very important to us when investing the pension funds. The Transition Pathway Initiative (TPI) on climate change continues to gain momentum and now has the support of asset owners and funds that together have over £6 trillion in assets under management, up from £2 trillion at the start of the year. TPI is a joint initiative by the National Investing Bodies of the Church of England and the Environment Agency Pension Fund. Working together, we exercise significant influence over the behaviour of a huge range of other investors.

Late in 2017, we announced, in conjunction with other Church investors, a new policy on investing in extractive industries. The new policy acknowledges the positive contribution that mining can make to development and the material that it provides for many of the products in modern life. However, it also highlights that extractives companies are particularly vulnerable to poor governance and ethical controversy, and harmful, long-lasting impacts on communities and the environment.

It was with great sadness that we learned of the sudden and unexpected death of Bernadette Kenny, our Chief Executive Officer, in October 2017. Bernadette was a much-valued colleague, friend and inspirational role model who had led the Board for over six years. During this time, she brought about real change in the way we delivered our services and in how we engaged with our customers and stakeholders.

At the end of 2017 we lost the services of several Board members who either stepped down or did not stand for re-election. These were Canon David Froude, who had chaired the Audit and Risk Committee for many years, Jane Bisson and Brian Wilson. During the year, the Revd Paul Boughton stepped down from the Board owing to ill health; we sadly learnt of his death in early 2018. We are grateful for their service and contributions to the Board and its committees.

During 2018 we will be focussing on the staff pension fund and preparing for the clergy funded scheme’s valuation at the end of the year. We will also look forward to welcoming new members of the Board and a new Chief Executive to shape and refine the retirement services we offer to ensure that they are sustainable for the future.

Jonathan Spencer
Chair
THE CHURCH OF ENGLAND
PENSIONS BOARD AT A GLANCE

The members of the Pensions Board represent a balance of skills and expertise and are drawn from a wide range of constituencies. All members serve on one or more of the Board’s Committees.

**Pensions**

Over 40,000 people rely on us to administer their pension

Over 520 employers participate in our schemes

**Investments**

9.4% total return on all pension assets in 2017

£2.6 bn funds under management

**Housing**

Over 2,500 retired clergy and their dependants housed

£27.9 m spent on charitable activities

We provide retirement services for those who have served or worked for the Church

REVIEW 2017
Over 40,000 people, working for over 520 employers, rely on us to administer their pensions. These people work in parishes as stipendiary clergy or as administrators in the parish office, they work at Church House, in Cathedrals and diocesan offices.

The Church of England Funded Pension scheme (CEFPS) provides pensions and associated benefits for clergy and others in stipendiary ministry for service from 1 January 1998; benefits for service prior to that date are wholly funded by the Church Commissioners.

The valuation at the end of 2015 provided a snapshot of the funding position of the fund. The actuarial valuation for the CEFPS showed that the scheme had a deficit of £236 million but a recovery plan is in place to bring the scheme back to full funding.

The benefit formula is based on the National Minimum Stipend, with the amount of pension earned linked to the length of pensionable service. Increases in payment are linked to the changes in the Retail Prices Index, subject to a maximum rate increase.

During 2017 we began the actuarial valuation (which was completed in early 2018) of the Church Workers Pension Fund (CWPF), one of our most complex schemes. The CWPF provides a service to employers linked to the ministry and mission of the Church of England. It has grown over recent years as parishes and organisations have looked for a pension fund which fulfilled the requirements of the Government’s desire to see all employees enrolled in an appropriate pension scheme which met certain standards. There are currently around 450 employers participating in the Scheme.

The scheme has two sections – a defined benefits section and the “Pension Builder” section. Pension Builder, in turn, has two hybrid sub-sections where the level of contribution is chosen by the employer. Under Pension Builder Classic the contributions provide an amount of pension payable at the member’s normal pension age, whereas Pensions Builder 2014 provides a lump sum that members use to provide benefits at retirement. Bonuses are added from time to time, depending on the investment return earned by the fund and the financial position of the sections.
The actuarial valuation of the CWPF as at 31 December 2016 showed the defined benefit section had a deficit of £29.4 million; and the pension builder classic section had a deficit of £14.2 million. We worked closely with the employers participating in the scheme, particularly with those who had an unexpected or unanticipated deficit in their section owing to negative economic factors since the last valuation.

The Church Administrators Pension Fund (CAPF) provides pensions for the staff of the National Church Institutions.

The fund has two sections – a defined benefits section which closed to new entrants in 2006, and a defined contribution section. The defined benefits section was amended in 2010 so that it provided benefits based on career average earnings for future service, rather than final salary. Both sections are non-contributory by the employee although defined benefit members pay towards the cost of benefits for dependants. Pension increases in the defined benefit section are linked to changes in the Retail Price Index.

We are currently undertaking an actuarial valuation of the CAPF to look at the funding position of the scheme and determine future contributions. The last valuation was carried out as at 31 December 2014. The difference between the scheme’s assets and its liabilities at that time was a deficit of £25.1 million.

In delivering pensions administration for over 40,000 people, we seek to understand our customers’ needs and expectations. We seek feedback from new pensioners, and we have strengthened links with the employers participating in our funds.

Customers and employers can phone or email members of our experienced pensions team. Every month, the team receives hundreds of queries ranging from individuals changing their personal details, to changes in personal circumstances, to parishes seeking a pension scheme for their staff.

The team can be contacted on 020 7898 1802 or can be emailed at pensions@churchofengland.org.
We manage funds in excess of £2.6 billion. Most of the assets of the pension schemes are pooled to allow the smaller schemes to access economies of scale and investment opportunities which might not be available to them otherwise.

The objective of pension scheme investing is to ensure that there are sufficient funds to pay the scheme’s liabilities.

For the pension schemes, we operate a Return Seeking Pool and Liability Matching Pools; each scheme also has liability-driven investments.

The Return Seeking Pool is managed by 20 managers.

We agreed a new asset allocation target for the pool during the year. This will further increase the diversification of the pool and reduce the volatility of its valuation.

The new target is long term and will be implemented over the next ten years. The allocation to public equities will reduce from its current level 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 planned a programme of additional investment in global private infrastructure equity with a range of managers in late 2016 which has now been completed. This is expected to take around three years more to be fully drawn. In the meantime, the programme will be expanded further to reach the 10-year allocation target of 20% of the Return Seeking Pool.

Our top five equity investments at 31 December 2017 were in Alphabet, Apple, Microsoft, Samsung Electronic and Wells Fargo.
In order to mitigate risk, we have implemented a **Liability-driven investment** (LDI) framework for each scheme, in addition to their holdings in the **Liability Matching Pool**.

Using a range of instruments, including Gilts, bonds, swaps and repos, an LDI investment strategy is constructed that closely matches the behaviour of the pension liabilities. As such, it goes to the heart of pension scheme investing.

The Liability Matching Pool is invested solely in corporate bonds.

The Return Seeking Pool returned 11.3% and the Liability Matching Pool 4.3% in 2017. This is particularly pleasing, as it follows the exceptionally strong 2016 performance, when the Return Seeking Pool returned 19.2%.

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<th>1 year % pa</th>
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<th>5 years % pa</th>
<th>10 years % pa</th>
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<td>10.7</td>
<td>11.8</td>
<td>6.7</td>
<td>8.8</td>
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<tr>
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<td>4.9</td>
<td>6.5</td>
<td>8.1</td>
<td>7.8</td>
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<tr>
<td>RPI + 3% Comparator</td>
<td>7.1</td>
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Equities were the significant driver of performance in 2017, as they were in 2016. The Fund’s public equity portfolio returned 13.8% over the year. Emerging Market Equities were the stand-out performers, with the Fund’s portfolio returning 28.8% over the year.

Long-dated Gilt issues were under pressure during the year. The CEFPS 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.

Index-linked Gilts posted modest returns over the year, with the FTSE Over 5-Year Index-linked Gilt index appreciating by 2.5% in 2017. The LDI account for the CWPF and CAPF returns were 2.6%. The LDI frameworks were implemented less than three years ago so longer-term returns are not available.
We are committed to active engagement with companies we invest in, consistent with our ethical investment policies.

As one of the Church of England’s investing bodies, we believe that the way in which we invest forms an integral part of the Church’s mission and witness. We receive advice and support on ethical investment from the Church’s Ethical Investment Advisory Group (EIAG). They develop policy advice which, once we adopt, enables us to act as a distinctly Christian, and Anglican, institutional investor.

We are signatories to the UK Stewardship Code and the United Nations Principles for Responsible Investment.

Our Engagement Team undertakes engagement with companies in which we are invested, including at shareholder meetings. We expect the companies in which we 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.

We do not wish to profit directly from, or provide capital to, activities that are materially inconsistent with Christian values, and we are aware of the risk of undermining the credibility, effectiveness and unity of the Church’s witness were we to do so. A range of investment exclusions is maintained and updated regularly. These include companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending, and human embryonic cloning. On Climate Change we operate a screen that excludes companies which derive more than 10% of their total revenue from mining thermal coal and the production of oil from tar sands.
Ethical investment is about what and how we invest. We:

- take a long-term view,
- select investment managers who can 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.

2017 was an important year in advancing our programme on climate change. The Transition Pathway Initiative (TPI) is now supported by funds with over £6 trillion in assets under management. During the year, TPI assessments were released for 99 companies in five energy/carbon intensive sectors. These transparent assessments provided the basis for our engagement on disclosure and future carbon performance against a “2 degrees” scenario.

Important dialogues have also been established with mining companies through the International Council of Mining and Metals and with oil and gas companies through the global oil and gas industry association for environment and social issues.

A new Extractive Industries Ethical Investment Policy, setting out key areas for engagement with extractives, was adopted towards the end of the year. A dedicated engagement programme is under development, for implementation in 2018.

2018 will see us focussing heavily on our role in leading engagement on climate change and extractive policies. TPI will continue to be a key part of the strategy as well as developing engagement on targets aligned to the Paris Agreement and on the impact of corporate lobbying.
Around 25% of retiring clergy come to us for assistance with their retirement housing.

The CHARM (Church’s Housing Assistance for Retired Ministry) scheme is designed to assist retiring clergy who have not been able to make their own provision to find somewhere to live in retirement. Two options are available to customers – shared ownership and rented housing. Around 2,500 retired clergy households and their dependants are housed in one of these two options or in the mortgage scheme (which closed in 2008).

The wider Church of England contributes to the running of the CHARM scheme through “Vote 5” of the Archbishops’ Council budget. The total contribution for 2017 was £4.57 million.

The majority of our customers choose to rent a property from us. The rent payable is based on a social housing formula.

At the end of 2017, 1,196 properties were rented to retired clergy households.

Subject to eligibility criteria, retiring clergy can choose a property from our portfolio up to five years before they intend to retire. They “reserve” it for their retirement, and we ensure that any ingoing works are complete before they retire and take occupation.

In 2017 we added a further 22 properties to our portfolio at a cost of £5.3 million.

We house around 110 clergy households through the shared ownership option. We buy a property in partnership with the retiring household; we will contribute up to 75% of the property cost, with rent paid on the share we own.

It is not unusual for the household to buy out additional equity in the property, or buy out our share entirely.

Until 2008, we granted equity sharing mortgages to retiring clergy. At the end of 2017, there were around 700 of these loans outstanding.
It is important to us that our portfolio of properties is well maintained. Our customers can report issues with their properties at any time of the day or night, seven days a week, through our partnership with Sanctuary Housing.

In addition to the CHARM scheme, we also provide supported housing. This is for retired clergy and their dependants who wish to live as independently as possible with access to a range of support services. Our seven supported housing communities provide somewhere to live where the liturgical and spiritual life of the Church of England is central.

The communities not only provide residents with a self-contained flat, but also include dining facilities, meeting spaces, libraries, chapels with regular services and communal grounds.

In delivering our housing services, we seek to understand our customer’s needs and expectations. We ask for feedback from everyone who moves into one of our properties, and our team members spend an increasing amount of time visiting our customers to discuss their housing options and any issues or concerns that they may have.

Retiring clergy, and those already in our properties, can phone or email members of the housing team. The team receives hundreds of queries each month – these can range from a change in personal circumstances, to someone looking for housing or considering a move into supported housing.

The team can be contacted on 020 7898 1824 or be emailed at housing@churchofengland.org
The members of the Pensions Board represent a balance of skills and expertise and are drawn from a wide variety of constituencies. The majority of members serve on at least one of the Board’s Committees.

**Appointed Members**

Dr Jonathan Spencer CB (Chair)
Jeremy Clack FIA
Canon David Froude ACIB*
Roger Mountford
Nikesh Patel***
The Revd Caroline Titley***

**Elected by the House of Laity**

Jane Bisson*
Roger Boulton FIA
Canon Nicolete Fisher
Alan Fletcher ACII (Vice Chair)
Canon Emma Osborne
Bill Seddon***
Brian Wilson FIA*

**Member Nominated Board Members**

The Revd Fr Paul Benfield
Ian Boothroyd
The Revd Paul Boughton ACA*
The Revd Nigel Bourne

The Rt Revd Alan Wilson

**Employer Nominated Board Members**

Richard Hubbard

Canon Sandra Newton

*Resigned or left the Board during 2017   ** Joined the Board during 2017   ***Joined the Board during 2018