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 receive 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 June 2033 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.

Ethical and responsible investment considerations are central to the Trustee's work. They reflect the Christian identity and the values of the Board and its beneficiaries, and they inform its aim of achieving a long-term sustainable return on the Scheme's investments.

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

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. ESG considerations are central to the Trustee's investment beliefs.

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 Measure 2018.

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	25:75 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 prior to 31 December2014. 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.

The Trustee does not directly consider the views of beneficiaries with regard to the selection, retention and realisation of investments, However, its investment beliefs reflect the Christian identity and values of the Scheme's beneficiaries and these are central to how the Scheme is invested.

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 recognises climate change as a major financial and social risk, and one that has potential to impact gravely on the financial well-being of the members of its schemes as well as their quality of life in retirement.

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 Board's own Engagement Team and the Corporate Governance Team that works jointly for the Church of England Pensions Board and the Church Commissioners.

The Corporate Governance 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 Corporate Governance 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:

Date: 19 SEP 2019.

APPENDIX 1

INVESTMENT BELIEFS

1. Ethical and responsible investment considerations are central to the Board's work. They reflect our Christian identity and the values of the Board and our beneficiaries, and they inform our aim of achieving a long-term sustainable return on the Board's investments.

2. Climate change presents a key investment risk and an opportunity.

3. Our various pension schemes differ from each other and require their own approaches to risk and return.

4. Strategic asset allocation has a greater impact on our ability to meet liabilities than manager or stock selection.

5. Over the long term, achieving a higher investment return requires taking more investment risk. Taking additional risk does not guarantee a higher return.

6. The amount of investment risk taken should not give rise to potential adverse consequences that cannot be met by the sponsoring employers.

7. Opportunities to capture illiquidity premia, which are frequently rewarded, are considered where appropriate.

8. Diversification reduces the volatility of returns, within and across asset classes.

9. Active fund management can generate additional return, because investor behaviour can result in market inefficiencies and opportunities for long-term investors.

10. The cost of implementation is important.

11. Good trustee governance improves the quality of investment allocation decisions.

APPENDIX 2

FINANCIAL RISKS

Risk	Description	Mitigation
Active	The risk that an active manager may underperform its benchmark and therefore that the return from the assets being managed will be less than could be achieved more cheaply using passive tracking management.	The Trustee takes advice on manager appointments, has expertise of its own and ensures that the monitoring of managers is carried out continuously. The Trustee ensures that appropriate benchmarks are chosen for active managers.
Counterparty risk	The risk that a counterparty to a financial transaction will fail and the value of the transaction is not received at all or only partially by the other party.	The overwhelming majority of the investment transactions undertaken by the Trustee on behalf of the scheme are in stocks that settle contractually on recognised exchanges and where the exchange is the counterparty. When dealing in synthetic instruments, the Trustee will use exchange traded instruments where possible. If it cannot, it will use one of a range of carefully chosen direct counterparties, the list of which is advised by the relevant fund manager and reviewed by the Board's Investment Consultant.
Concentration	The risk that a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers, and that individual fund managers may from time to time hold the same stock.	To the extent that is cost effective, the Trustee ensures that the Scheme's investments are diversified across asset classes and managers.
Climate change	The risk that rising Global temperatures and severe weather events will negatively impact the value of specific investments.	The Trustee has developed policies for engaging on climate change issues with investee companies, it is a founder and leader of a key investor coalition on climate change (TPI), it is an active member of other investor groups actively engaging on these issues (PRI, IIGCC, CDP, CIG), and it does not invest in companies

Risk	Description	Mitigation
		generating more than 10% of their revenues from tar sands and thermal coal. The Trustee also views climate change as an opportunity for generating return from investment in businesses that are facilitating the transition to a low-carbon economy.
Credit	The risk that the payments due under a credit instrument might not be made by the issuer. There is also the possibility that a company or investment fund in which the scheme is invested might fail.	The Scheme's investments are diversified, thereby limiting the effect of a credit failure. The Trustee selects credit managers that have a strong focus on borrowers' ability to repay debt. The Scheme's active equity managers are appointed for their expertise in selecting individual company investments.
Currency	The risk that changes in exchange rates will have an impact on the relative value of the assets and liabilities, through investment in non-sterling assets, given that the Scheme's liabilities are denominated in sterling.	The Trustee has put a passively managed currency hedging programme in place that covers approximately half the currency risk of the scheme.
Inflation	The risk that the projected cash flows from the assets have different linkages to inflation from those of the projected liabilities.	The Trustee monitors the Scheme's inflation risk closely, advised by the Actuary and the Investment Consultant. The Scheme invests in index-linked bonds, derivatives and other instruments.
Interest rate	The risk that interest rates can fall, causing estimated scheme liabilities to rise and that the assets do not rise in value commensurately.	The Trustee monitors the Scheme's interest risk closely, advised by the Actuary and the Investment Consultant. The Scheme invests in index-linked bonds, derivatives and other instruments.
Liquidity	The risk the assets held are not readily marketable and realisable.	The Trustee takes advice on the extent to which each scheme it administers can hold

Risk	Description	Mitigation
		illiquid assets, particularly bearing in mind the balance of contributions and benefit payments for each scheme.
Longevity	The risk that longevity experience may differ from expectations, and that expectations may change over time. The chief risk that concerns the Trustee is that an increase in life expectancy will increase the Scheme's liabilities.	The Trustee takes advice from the Actuary on mortality, the assumptions for which are made prudently. The Trustee has considered and will continue to consider appropriate strategies for hedging longevity risks.
Regulatory	The risk that the regulatory regime in a market environment may change. This may be compounded by political risk in those environments, especially those subject to unstable regimes.	Global fund managers are appointed partly for their expertise in avoiding such risks.
Volatility	The risk that the value of assets, such as equities, whose prices are set with reference to highly liquid public markets may be particularly affected by short term sentiment.	The Trustee considers volatility of pricing in its assessment of future returns.

NON-FINANCIAL RISKS

Risk	Description	Mitigation
Operational	The risk that the Pensions Board may not be able to operate due to the temporary or permanent loss of premises, access to premises, IT systems, telephone connections or Web access.	The Board's Business Continuity Plan makes provisions for these key services. Additionally, electronic data is backed up on remote servers; staff can work away from their offices for extended periods; the Board's advisers have premises that can be used for meetings.
Regulatory	The risk that the Board fails to comply with pension regulation or regulatory guidance.	The Board has access to a broad range of expert support from its Investment Consultant, Actuary, Covenant Adviser and Legal Adviser.
Reputational	The risk that the Board's reputation is damaged through a real or perceived failure to fulfil its duties in pension administration, or investment, or in the parts of its business associated with providing housing for retired clergy.	The key mitigation is the effort made to avoid failure in the first place, noted elsewhere in this document. The Board has a professional and experienced media and communications team, and a robust plan for tackling PR and communications issues as they arise.
Staffing	The risk that key staff cannot be retained or cannot fulfil their duties due to ill-health.	Staff remuneration is set in relation to comparable roles outside the Board. HR policies focus on employee well-being and work-life balance. The executive team has a succession plan for itself and key staff. Senior staffing has also expanded, so that the importance of key individuals has been lessened.