Introduction

1. The Church of England Pensions Board provides retirement housing and pensions for those who have served or worked for the Church of England. We assist over 38,000 people across more than 450 employers, and we manage funds in excess of £2.8 billion. We are one of the three National Investing Bodies of the Church of England. More information on the Board is available here¹, including the Board’s Annual Reports.

2. The Church of England Pensions Board is committed to ethical and responsible investment², and this document outlines how the Board implements this commitment in the way we invest, interact with our asset managers, and steward the underlying assets we own.

5. As an asset owner we have a range of stewardship responsibilities, and attending to environmental, social and governance (ESG) matters is essential if we are to discharge our fiduciary duties and meet our funding obligations over the long term.

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¹ https://www.churchofengland.org/about/leadership-and-governance/church-england-pensions-board
² See for example Section 8 of the Statement of Investment Principles of the Church of England Funded Pensions Scheme (CEFPS) here.
6. ESG risks and opportunities are therefore central to the way we invest, and this is expressed formally in three key documents:
   - Statement of Investment Principles (SIPs)
   - Statement of Investment Beliefs (SIBs)
   - The Board’s Risk Register

7. These documents are relevant to all of the Pension Schemes administered by the Board.

8. As a Church of England institution, we seek to invest in a way that is consistent with the ethos and ethics of the Church of England. We believe this approach is consistent with the wishes of our scheme members and the employers (the sponsors). We are guided in ethical investment matters by the Church of England’s Ethical Investment Advisory Group (see www.churchofengland.org/eiag), which provides practical, timely and theologically based Advice on Ethical Investment to the Pensions Board, the Church Commissioners and the CBF Church of England Funds.

9. In 2010, the Board signed the UN Principles for Responsible Investment (‘PRI’). Being a signatory involves a formal commitment to:
   - integrate ESG issues into investment analysis and decision-making;
   - to be active owners of investments;
   - and to incorporate ESG issues into ownership policies and practices.

10. We are also a Tier 1 signatory to the UK Stewardship Code, and from 2020 will be reporting to the Taskforce on Climate Related Financial Disclosure (TCFD) framework.

Resources

11. In recent years the Board has developed an integrated Investment Team that includes both investment and stewardship specialists. The team is jointly led by the Chief Investment Officer (CIO) and the Director for Ethics and Engagement, who both individually report to the Board’s CEO. The team includes 5.5 FTE staff dedicated to stewardship activities, working alongside and with the 5 FTE investment officers and operations specialists. The Board is also proud to host the Secretariat of the Ethical Investment Advisory Group on behalf of all three National Investing Bodies.

Ethical Investment

12. Together with the other National Investing Bodies (NIBs) of the Church of England, the Board co-funds the Ethical Investment Advisory Group, whose terms of reference outline their role to support the NIBs to invest ethically in a way that is distinctively Christian, by offering timely and practical Advice on asset classes, industries and sectors, stewardship more broadly, and public policy. The Board appoints one member of the EIAG, and one member of its Nominations Committee. The Pensions Board is delighted to host the EIAG’s secretariat.

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4 https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners

5 https://www.churchofengland.org/sites/default/files/2019-02/EIAG%20Terms%20of%20Reference%20agreed%202018f.pdf
13. The EIAG has been in existence since 1996, and its current list of Policies and Advisory Papers includes 20 publicly available documents⁶, including a Statement of Ethical Investment, which outlines the overall approach of the NIBs to ethical investment. The EIAG publishes an Annual Review that outlines the Group’s work-in-progress.

14. The Board is committed to using the Advisory capacity of the EIAG, and in addition to contributing to both Advisory and Policy papers under discussion, the Board provide a written report on our stewardship activities to each meeting of the EIAG.

15. The EIAG’s policies result in three main outputs.
   a) Advice on a range of topics for engagement, including an element of prioritisation.
   b) Advice on the companies, sectors or lines of business that should be restricted.
   c) Regular consideration of ‘Horizon Scanning’ in relation to ESG, stewardship and ethical investment issues.

**Implementing Ethical Screens:**

16. In order to deliver our ethical policies that stipulate the use of ethical screens we contract a research provider (MSCI) to analyse a universe of 9000 companies for business involvement in areas covered by policy restrictions. We supplement this with our own process of analysing and restricting companies on a case-by-case basis (some companies can become restricted if they do not respond to engagement or if they fail to meet our responsible investment expectations). In 2018 we excluded 345 companies from investment and in 2019, 425 companies.

17. Alongside this methodology in public markets, we also implement the EIAG’s advice across other asset classes. This is, and will continue to be, implemented in the following ways:
   - the appointment process for new asset managers,
   - the legal documentation we put in place,
   - and the ongoing relationships and manager monitoring processes we maintain.

**ESG Integration**

**ESG Integration at the Board**

18. The Board is committed to ESG integration as an ethical and responsible investor. The Board implements ESG integration internally and expects ESG integration from our asset managers and advisors. ESG is considered and integrated at a strategic level, as part of our deliberations on our strategic asset allocation, as the Investment Committee considers financial and non-financial risks and opportunities as they relate to the Board’s portfolio and individual mandates, and as we prioritise stewardship activities, including in response to the long term threat of climate change.

19. ESG and stewardship forms a standing agenda item for discussion at every Investment Committee meeting, and Trustees (on the Investment Committee and the wider Pensions Board) regularly have ‘deep dive’ sessions on ethical and responsible investment themes. We also expect our advisors (including investment and actuarial advisors) to integrate climate change and other ESG considerations into the advice they provide.

20. Responsible investment and ESG considerations are taken into account when we appoint our investment advisors.

⁶ [https://www.churchofengland.org/eiag/policies](https://www.churchofengland.org/eiag/policies)
Manager Appointment

21. The Board takes account of the ESG credentials, policies and procedures of prospective asset managers, aiming to ensure that ESG is “in the DNA” of the managers we appoint. We require that our asset managers can demonstrate the capacity to analyse and act on ESG considerations. This may manifest itself in different ways across asset classes. We specify RI requirements in our Investment Management Agreements, side letters (additional contractual documentation) for pooled funds/indirect investment vehicles, and other appropriate legal documentation.

Manager Engagement and Monitoring

22. We engage with and monitor our managers on a regular basis, and the Board’s ESG specialists attend asset manager update meetings. We strongly encourage and expect (where appropriate) our asset managers to partner with us on stewardship matters. This is particularly the case when we are engaging with companies on matters that relate to the investments our managers make on our behalf.

23. ESG integration is also demonstrated in the way we monitor and report on our asset managers. The Investment Team monitors the policies, capacity and ongoing stewardship activities of each of our asset managers, and these details are incorporated into the quarterly manager monitoring report that is presented to the Board’s Investment Committee.

24. Further details on the way we monitor our asset managers is available in Annex 1

Termination

25. The Board’s Investment Committee believes that there are circumstances in which poor ESG and stewardship performance could warrant the termination of an asset manager’s investment mandate.

Active Ownership

26. We expect our external asset managers to be active owners of their investments in a way that is appropriate to their area of investment and strategy. We additionally undertake active ownership activities as an asset owner and encourage our asset managers to work with and alongside us in these endeavours.

Voting

27. The Board seeks to vote all of our shares, and we undertake this ourselves rather than delegating this responsibility to the asset managers to whom we give investment mandates. We invest in dedicated in-house expertise in a senior Voting and Screening Analyst.

28. We vote in line with best practice in corporate governance and the policy recommendations of the EIAG, in particular the Statement of Ethical Investment Policy, Corporate Tax, Executive Remuneration and Business and Engagement policies. We maintain a voting template that guides the recommendations of our proxy voting data provider (currently ISS Ltd). This template is a joint effort among members of the Church Investors Group (a group of 70 institutional investors affiliated to Christian Churches, who are responsible for over £21Bn AUM).

29. We have dedicated staff capacity to implement our voting programme. In addition to implementing the voting template we are able to “override” the recommendations of our proxy
voting advisor, and in practice we exercise case by case discretion on over 1000 resolutions per annum.

30. We are usually supportive of company management, though we regularly cast votes against management, most frequently on executive remuneration. It is also common for us to support resolutions proposed by shareholders on ESG issues, including on the themes of climate change and gender diversity.

31. We communicate directly with companies if we have voted against management and the company is one of our larger holdings. We do this to explain the reasons behind our dissenting vote, and to encourage the companies to meet our expectations and be responsive to shareholders’ feedback.

32. On strategically important issues to the Board we will co-file shareholder resolutions when seeking a specific change at a company. In recent years these have focussed on the corporate funding of lobbying institutions (such as trade associations); encouraging company boards to review whether there is misalignment between their policies on climate change (e.g. support for the Paris Climate Change Commitments) and the actions of lobbyists acting on their behalf. We also encourage the company to act if there is misalignment and to set emissions targets.

33. We have an agreed escalation process for deciding contentious votes and shareholder resolutions that can be elevated to the level of the Investment Committee and Board. Where voting forms part of an ongoing engagement programme, we inform target companies of our voting intentions in advance of the AGM.

34. We compile a detailed report on voting every year and publish this on our website, and we publish a summary of our voting record in our annual report. We are committed to greater transparency on voting and are considering the publication of all our voting decisions.

Engagement

35. We believe that our asset managers should monitor the investment quality of investee companies, and that this should include ESG considerations. The longer the expected holding period, the greater the responsibility to assume stewardship responsibilities.

36. We expect our investment managers to conduct engagement activities, including on ESG issues, as appropriate in the light of their expected holding periods and the issues arising at investee companies. We expect our managers to report to us on their engagement activities, and where possible and appropriate to collaborate with us on our direct engagement/stewardship activities.

37. We also engage directly with investee companies. We believe that we have a responsibility to ensure that a programme of engagement is conducted with investee companies that is appropriate for a national investing body of the Church of England and consistent with the policy recommendations and guidance of the EIAG.

38. Our stewardship and engagement activities are reported annually.

Collaboration

39. Collaboration with other investors is an established part of our regular ethical investment activities. We collaborate frequently with other church investors, asset owners, and asset managers on engagement with companies in order to amplify our voice and use our staff
resources effectively. We also acknowledge our own leadership responsibilities and lead strategically important engagement initiatives and offer leadership support when this may not be forthcoming from other investors.

40. We contribute to and lead both smaller and larger collaborations. We work with other Church investors through the Church Investors Group (70 Christian institutional investors with approximately £23Bn AUM), and with groups of e.g. 5-10 investors on particular shareholder resolutions.

41. We also work within larger coalitions, including Climate Action 100+, the Institutional Investors’ Group on Climate Change (IIGCC), where we take the lead on engagement with individual companies, and on particular workstreams (e.g. the Paris Aligned Investing Initiative of IIGCC).

42. We are willing to lead investor coalitions and initiatives, and these tend to fall under our category of ‘Impact Engagement’, which is outlined below.

43. We also collaborate across the finance ecosystem, with e.g. banks, other financial institutions and policy makers on issues where engagement with the wider financial and regulatory community is appropriate. For example, where we have sector-wide concerns in relation to climate change or safety in mining.

**Impact Engagement**

44. The board believes that some ESG and stewardship concerns warrant special prioritisation and concerted effort. Guided by the EIAG, the Board has highlighted climate change and extractive industries as two such sets of concerns that require long term dedicated capacity and commitment to drive long term change.

45. Impact Engagements are those we undertake that have wider positive impact than traditional direct engagement between shareholders and their companies. A direct company engagement might be in writing or face to face, and will usually involve a timescale and process for escalation if the concerns raised are not adequately addressed. Impact engagements on the other hand may have these features, but also seek to provide positive impact beyond the companies engaged with, such as where we work to develop a tool or methodology that other investors can use, and that may be applicable beyond the companies that we currently invest in.

46. Importantly we look beyond the company at the issue and consider if an ESG/stewardship topic warrants focus in its own right. We will also assess if the issue requires a change in the way that investors engage and are open to a more strategic focus on the nature of engagement, as well as the underlying issue.

47. Impact Engagements are best illustrated by some recent examples:

   **Transition Pathway Initiative (TPI)**

48. The Church of England Pensions Board recognised that asset owners needed an independent academically robust tool that sat above the various company data disclosures and actually assessed if companies were changing their performance. We also wanted to put the terms of engagement on asset owners terms and not those of companies. We are the ultimate owners and long term institutional investors and to engage meaningfully we needed something different. We therefore set up and continue to lead the Transition Pathway Initiative (TPI) with the Environment Agency Pension Fund (EAPF). This is now supported by 56 investors with over
USD16 trillion in AUM and is the tool being used by the global engagement initiative CA100+ (supported by 364 funds with USD35 trillion in AUM) to assess company progress and transition risk. Such an intervention serves the Board’s needs to have such a tool to manage our own transition risk, to hold our managers to account and to communicate to our Trustees and beneficiaries as well as the wider needs of asset owners/responsible investors. The contribution we have made has been significantly leveraged through the involvement of other partners to create a world leading tool that underpins the transition to a low carbon economy.

In 2017 we co-founded the Transition Pathway Initiative in partnership with other asset owners, FTSE Russell and the Grantham Institute at the London School of Economics. This is an academically robust tool to assess transition risk in high emitting companies, providing open-source assessment based on the best available climate science. It allows us to a) engage with companies to provide meaningful disclosures, b) assess and differentiate between 270 companies in 12 sectors (this coverage is continually expanding) c) contribute to and benefit from cutting edge thought leadership on how to assess transition risk in difficult sectors, such as Oil and Gas. If a company is assessed poorly under TPI, we take a range of steps, from engaging with the company, to voting against the Chair, and even disinvestment in due course.

TPI Aligned Index Development

49. The Board has been working with FTSE Russell to develop an index that is constructed in part based on Transition Pathway Initiative (TPI) data. TPI is the primary way the Board seeks to understand and act on the basis of transition risk, so the prospect of aligning our passive investments to the transition is of great interest. It is rare for asset owners to become involved in the development of index parameters, tilts and rules, and we have been keen to work with FTSE to develop an index that meets our requirements. The index is due to be launched in 2020 and is a key part of the Board’s commitment to align with the Paris Climate Agreement. We have designed the index in a manner that delivers on our own requirements as well as potentially of interest to other investors.

Corporate Climate Change Lobbying

50. Recognising the need to have an enabling regulatory environment that supports the Paris Agreement we have considered the way that companies interact with policy makers. It is clear that many companies have made commitments to support the Paris Agreement but then resource lobbying by industry associations that do the opposite. This is a fundamental material misalignment with both the interests of the company and us as an owner.

51. Since 2017 the Board has developed a European wide programme of engagement that has sought to address the problem of misaligned lobbying on climate change. We have developed a set of investor expectations on corporate lobbying in conjunction with Sweden’s AP7 ($57bn AUM) and BNP Paribas Asset Management ($455bn AUM), along with a larger group of supporting organisations7 identified some of the ‘worst offenders’ in relation to mis-aligned lobbying, written to 55 European companies, and escalated engagement with 6 companies through shareholder resolutions. We have been pleased to see progress and significant shareholder votes at a number of companies (e.g. 30% dissent from management at the world’s

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largest mining company at BHP’s 2019 AGM), and to have been profiled by Climate Action 100+ as an engagement success story. The initiative is now being replicated across the US by US investors.

**Mining and Tailings Safety**

52. The Board has been looking at tailings dams since the EIAG’s Policy on Extractive Industries was published in 2017, and we had met twice with senior figures in the International Council on Mining and Metals (ICMM) before the Brumadinho Tailings Disaster took place in January 2019. After the end of the official mourning period in Brazil, we issued a call in conjunction with the Council on Ethics for the Swedish Public Pensions Funds and a group of other investors for there to be a new industry standard on tailings safety. We asked for this to be independent, transparent, and based on the consequences of failure. This call led to the creation of the Global Tailings Review, convened by ICMM, United Nations Environment Programme and UN Principles for Responsible Investment (with the Pensions Board and The Council on Ethics for the Swedish Public Pension Funds acting on behalf of PRI). Professor Bruno Oberle, a former Swiss Environment Minister, has been appointed as Independent Chair and is currently (November 2019) consulting on a new draft standard for tailings storage facilities.

53. We also developed our investor coalition through a series of regular roundtables and summits on tailings dams, and this coalition is now at over £13 trillion AUM, including investors, banks and insurers. All of whom have an interest in the safety of tailings.

54. Early on it became clear that corporate disclosures on tailings facilities were not adequate, and rarely consistent or comprehensive. We therefore wrote to 726 companies in extractive industries to ask for detailed disclosure on tailings facilities, including basic engineering and governance data. Letters were sent in April 2019, and to date we have received responses from approximately 73% of the mining industry (by market capitalisation), and 55% of the mining industry has responded with the full requested disclosures. All of this disclosure is in the public domain, and we are working with GRID Arendal (a Norwegian Academic Institute that supports the United Nations), the University of Sydney, UNEP and other technical experts to bring these disclosures together in a Global Tailings Database that will be accessible to all stakeholders. The group of investors have agreed to focus engagement efforts on companies that have not responded to our request for disclosure. This is a material issue to the whole investment community and is an example where we have engaged the issue across a whole sector rather than just the company at which the issue was identified.

**Transparency**

**Engagement with peers**

55. As members of UNPRI we collaborate and share best practice with other investors. We also spend time sharing our approach and details of the work we undertake, for example with other pension funds and investors, at industry conferences, with academic researchers, and in the media more widely. In 2019 we have spoken at more than 30 investor events and at Boards of strategically important Asset Owners.

**Reporting**

56. We expect our asset managers to report to us on responsible investment and active ownership (as appropriate to their strategy) on a regular basis.
57. The Board maintains records of all engagement and voting activity and gives an account of the stewardship work undertaken in the interest of our beneficiaries in the annual report. The Board also periodically publishes more detailed reports e.g. on our approach to Climate Change (consistent with the requirements of the Taskforce on Climate Related Disclosure (TCFD)), and other publications with our beneficiaries and sponsors as the intended audience.

58. As a UNPRI signatory, the Board reports in detail on our policies, capacities, and on the implementation of the Principles on Responsible Investment on an annual basis. Much of the detail is made public as part of our Transparency Report.

59. The Board also works with the EIAG in presenting our work on ethical and responsible investment to General Synod, one of the official bodies of the Church of England, usually annually during a Fringe Meeting of the Summer General Synod.

60. Finally, we disclose sufficient information for stakeholders to understand:

- our investment restrictions
- how we select and monitor asset managers
- the ESG characteristics our listed equity portfolio compared to the wider market, including its carbon footprint
- our voting activity, including our voting on UK executive remuneration
- our engagement activities and those of our managers, including engagement successes we have achieved
- the extent to which our portfolio includes investments with strong sustainability characteristics
- the organisations we work with on RI
- our plans for RI activities.

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Version 1.1 of this document was approved by the Investment Committee on 27th November 2019.
Annex 1

Asset Managers - Appointment, Engagement, and Monitoring

Appointment

1. The Board requires that all of our asset managers are able to demonstrate capacity to analyse and act on ESG considerations.
2. The Board requires that our asset managers are able to implement our investment restrictions, in line with the EIAG’s Advice and our published policy documents.
3. The Board requires that our asset managers are able to report to us on stewardship and ESG matters on a regular basis, and be responsive to our queries.
4. Other things being equal, the Board will appoint a manager with a stronger approach to responsible investment and ESG integration, which we believe is in the interests of our beneficiaries over the long term.

Stewardship and Monitoring

5. The Board expects that our asset managers monitor the ESG characteristics of the investments they manage and, depending on their strategy, undertake appropriate stewardship activities.
6. We strongly encourage our managers to engage with and alongside us on stewardship topics of mutual interest, such as climate change.
7. We track these engagements and they form part of the manager’s monitoring report that is reviewed and discussed at each Investment Committee meeting.
8. Our monitoring report also considers:
   a. The asset manager’s public commitments, such as their stewardship policies and their UN PRI and UK Stewardship Code signatory status.
   b. The asset manager’s stewardship activities, including their involvement in collaborative engagement activities, such as supporting the Transition Pathway Initiative, and Climate Action 100+.
   c. Whether the manager has dedicated ESG/Responsible Investment staff capacity.
   d. The strategy specific ESG rating provided by our Investment Consultants.
   e. In public equities, the ESG characteristics of the portfolio managed by each manager, including a detailed review of the poorest scoring companies on both our data provider’s standard methodology, and our own analysis (which is tailored to reflect our ethical and responsible investment policies).
   f. In other asset classes, relevant ESG, sustainability or impact characteristics of the underlying holdings.