



FOR THE COMMON GOOD: STEWARDSHIP AT THE CHURCH COMMISSIONERS

CHURCH COMMISSIONERS *for* ENGLAND STEWARDSHIP REPORT 2021





WELCOME TO THE CHURCH COMMISSIONERS' STEWARDSHIP REPORT 2021

There has never been a greater need for responsible and ethical investment. Companies and investors must act now to combat climate change and the host of social challenges some of which have been exacerbated in the last two years. In 2021, we worked to address these challenges. We are pleased to share our latest Stewardship Report. It has been reviewed and approved by the Church Commissioners' Assets Committee as the sub-committee of the Board of Governors with oversight responsibility for the Investment Division. In drafting this year's report, we have taken into account the FRC's detailed and valued feedback on our 2020 Stewardship Report, and have tried to address as many of these points as possible.

Our work is grounded in two themes: "Respect for the Planet" and "Respect for People", both of which are underpinned by corporate governance.

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YEAR IN REVIEW

Highlights:

Engagement outcomes

- Publicly supported activist campaign to replace 25% of ExxonMobil's board with three new, climate-aware directors
- Led engagement with Bayer to produce its first climate lobbying report
- Carried out engagement with a large cruise ship company on modern slavery, which led to publication of the cruise ship operator's modern slavery statement and a code of ethics
- Drove engagement with a Big Tech company and large European investment bank which led to publication of their respective human rights policies
- Divested from 28 companies that did not meet our TPI-based climate hurdles. Nine companies have improved because of our engagement

Net zero

- Formally adopted a 25% interim decarbonisation target by 2025 across the public equities and real estate portfolios
- Conducted a natural capital and carbon emissions assessment of our rural, timberland, minerals, and strategic land portfolios, and a strategy to enhance this is being developed

Investments

- As at 31 December 2020, the Commissioners had £1.1bn (11.5% of the fund) in qualifying impact investments, £630m of which were in climate solutions
- In 2021, the Commissioners committed more than £100m towards qualifying impact investments

- The Archbishops' Council Social Investment Portfolio, which the Commissioners seeded, made its first investments in 2021; the first investment was in a housing fund for vulnerable women
- Updated our RI Policy and RI Manager Framework (included minimum diversity criteria for managers)

Policy

- COP26: led the Church of England's COP Working Group to deliver a cross-Church approach to communication at COP26
- Instrumental in co-ordinating 30 investors in signing a commitment to eliminate agricultural commodity-driven deforestation by 2025, as part of the Global Deforestation Pact at COP26
- Co-founded the Investor Policy Dialogue on Deforestation (IPDD), a collective of investors which aims to engage with public agencies and industry associations to promote sustainable land use, forest management and respect for human rights; IPDD held successful meetings in 2021 with politicians, policymakers, and ambassadors about deforestation in both Brazil and Indonesia (the Commissioners co-chairs the IPDD's Indonesia workstream)
- IPDD outlined enhanced ambition in the Nationally Determined Contribution in advance of the COP26 meeting, as well as support of domestic policy which implements this

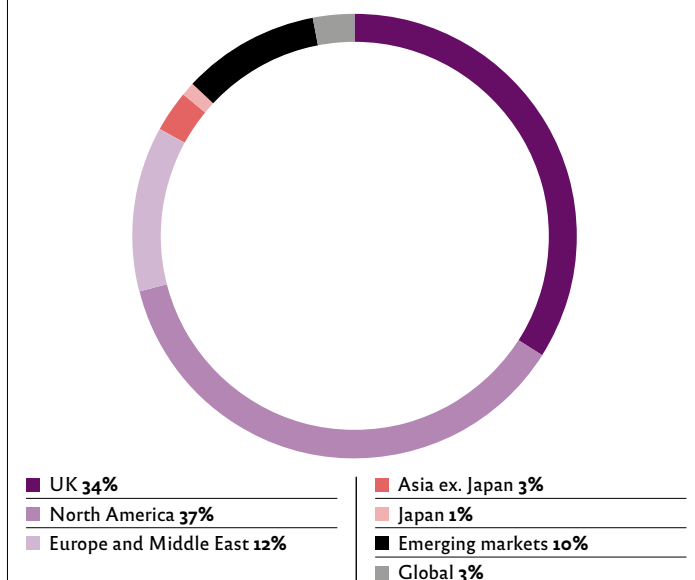
As at 31 December 2020, the Commissioners had

11.5%

in qualifying impact investments

Assets by geography

31 December 2021



Awards

- 2021 IPE Awards: Award for Best in Impact Investing (second year running)
- British Private Equity & Venture Capital Association Excellence in ESG 2021



WHO WE ARE AND WHAT WE BELIEVE



“The Church Commissioners support the mission and ministry of the Church of England in perpetuity through ethical and responsible management of the Church’s historical endowment fund. Our ability to provide funding on a sustainable basis today and for future generations is made possible only through the returns on our investments.”

Bishop of Manchester, David Walker
Deputy Chair, Board of Governors

The Church Commissioners, a charitable body established in 1947, has a strategic focus to support the Church of England’s mission and ministry, particularly in areas of need and opportunity, in perpetuity. We do this through the effective, sustainable management of the Church of England’s endowment fund – some £10.1bn at current prices as of December 2021.

We are a unique investment body, with two duties. We must create long-term financial returns to fund some mission activities through our churches, cathedrals, and dioceses. And we must make sure that the way we invest, and what we invest in, brings benefits to the wider world in a way that consistently shows positive outcomes in its contributions to the common good. In this way our assets can work hardest to change things for the better, as we seek to make the Church’s teachings and values real in all our work.

Our beneficiaries

We are governed by an Assets Committee which has exclusive power and a duty to act in all matters relating to the management of the Commissioners’ assets subject to any general rules made by the Board of Governors. Because of our unique structure, some of the Commissioners are also representatives of our beneficiaries, and we are also accountable to General Synod, which elects a certain number of Commissioners.

The Responsible Investment team reports regularly throughout the year to the Assets Committee on our stewardship approach and activities including, for example:

our approach to net zero, ESG integration and manager relationships, climate-related restrictions, and the social and environmental impact of our investments.

Our Assets Committee meetings offer the opportunity for a thorough debate of the key issues and through these interactions our trustees’ feedback is provided and decisions are made. As a result of the honest and informed feedback that we receive from our trustees, we are confident that our stewardship reporting is fair, balanced, and understandable.

We regularly source expert external opinion for areas of new development and new investment strategies. This complements the strength of diligence, research and risk assessment undertaken internally. The Assets Committee also receives commentary from specialist advisors when reviewing the investment outlook and the fund’s asset allocation.

We have assessed the effectiveness of our stewardship approach. This approach is grounded in the ethical policies we adopt as a faith-based investor, and in our overarching investment policy in the context of delivering the fund’s long-term target investment return. We believe that taking account of ESG issues is an intrinsic part of being a good investor across all asset classes and hold this belief for both ethical and financial reasons. Because of this belief, we are comfortable that we are delivering in the best interest of our beneficiaries.

Our beneficiaries are those who benefit from the distribution of our returns.





WHO WE ARE AND WHAT WE BELIEVE CONTINUED

Our beneficiaries continued

Our returns contribute to the common good and support ministry by:

- funding mission activities;
- supporting ministry costs in dioceses with fewer resources;
- paying archbishops, bishops' ministry, and some cathedral costs;
- administering the legal framework for reorganising parishes and settling the future of closed church buildings; and
- paying clergy pensions for service prior to 1998. At the end of 2021 there were:
 - 12,935 pensions in payment (9,328 pensioners, 3,594 surviving spouses and 13 children's pensions); and
 - 1,891 active members (i.e. clergy still in stipendiary ministry who have some service before 1998) and 1,013 deferred pensioners (i.e. people below normal retirement age who have some service pre-1998).

Stakeholders

Our stakeholders are varied and can be as broad as the entire Anglican Communion and all other faith-based investors who may look to the Church of England to see how we approach ethical investing.

Key stakeholders whose views we take into account are:

- General Synod – Synod members have the opportunity to ask the Commissioners questions about any aspect of our work at every Synod meeting. In addition, we present our Annual Report for debate when the General Synod's Business Committee puts it on the agenda. We also voluntarily make use of fringe meetings during General Synod to explain topical aspects of our work, or at times (such as the beginning of a new quinquennium after the new intake of Synod members) to give a more general overview of the Commissioners (see: General Synod meetings | The Church of England). In July, 2021 the National Investing Bodies (NIBs) submitted a report to the General Synod reporting on progress since a Synod motion in 2018 (see: National Investing Bodies report climate change progress to the General Synod | The Church of England)

- Environmental Working Group of the Church of England – The Church Commissioners' Head of Responsible Investment is a member of this Group, which works on net zero strategy and engagement with climate policy makers; (see: About our environment programme | The Church of England)
- Lords Spiritual/House of Lords (via bishops on our Board of Governors and via the Church's Faith and Public Affairs team)
- Parliament – the Second Church Estates Commissioner responds to MPs' questions about our work (see: The Church of England in Parliament (churchinparliament.org))
- Church parishioners and civil society representatives (see: Church Commissioners for England – useful documents | The Church of England)





WHO WE ARE AND WHAT WE BELIEVE CONTINUED

A responsible, ethical investor

Our goal is to be at the forefront of responsible investment. Being a responsible investor means being an active one, using the power of our voice to encourage companies to make the changes the world needs. Responsible investment is about holding a diversified portfolio across asset classes, investing for the long term, and integrating environmental, social and governance (ESG) issues into everything we do. Our approach is shaped by advice from the Ethical Investment Advisory Group (EIAG), which also provides advice to all of the NIBs, including the Church of England Pensions Board and CBF Church of England Funds.

Challenge 2030: dealing with the next decade's challenges

Our thematic priorities are rooted in an attempt to understand and engage positively with the challenges of the next decade relating to climate change, nature loss and rapid social change. They were identified by our Responsible Investment team in late 2020, and approved by our Assets Committee in February 2021. The result is Challenge 2030, which focuses on three pillars guiding our work: Respect for the Planet, Respect for People and Corporate Governance.

PILLAR ONE

Respect for the Planet

More than half of the world's economic output – US\$44tn of economic value generation – is moderately or highly dependent on nature, according to the Taskforce on Nature-related Financial Disclosures (TNFD). Yet humanity, and by extension financial markets, does not adequately value all of the services and resources that the natural world currently provides.

This leads to a range of environmental issues that pose significant risks not only for economic stability and future financial returns, but also the survival of our global ecosystem. Our approach is driven by the fifth Mark of Mission, “to strive to safeguard the integrity of creation, and sustain and renew the life of the earth”, and is thus guided by a commitment to tackling climate change and nature loss to mitigate the significant and complex real-world and portfolio-wide risks they pose. This extends to encouraging a societal shift to more sustainable practices for the benefit of all life on earth. These issues are interconnected, and we see opportunities to encourage corporate and regulatory/policy action that tackle these dual challenges and unlock significant opportunities for sustainable value creation and social development.

PILLAR TWO

Respect for People

This pillar is an intrinsic part of the fourth Mark of Mission, “to transform unjust structures of society...”, as we seek to improve unjust societal structures through engagement. We expect investee companies to demonstrate consciousness with regard to internationally recognised human rights. We also focus on emerging issues that will continue to challenge people and societies over the coming decade: the transition to a low-carbon economy, the increased prevalence of artificial intelligence and robotics in the workforce, and diversity and inclusion (D&I).

PILLAR THREE

Corporate Governance

We believe that good governance is at the heart of successful business and investment. As responsible investors, we believe that robust consideration of corporate governance practices underpins companies' sustainable wealth creation, protection of shareholders' capital, and the integrity and attractiveness of investment.





WHO WE ARE AND WHAT WE BELIEVE CONTINUED

Meeting the world's emissions reduction targets

Central to Challenge 2030 is reducing our carbon footprint and that of the investments we hold and the investee companies with which we engage. In the first quarter of 2021, we set our first emissions reduction target on the road to a net zero portfolio by 2050, as members of the Net-Zero Asset Owner Alliance (AOA). We are targeting a 25% reduction of the Scope 1 and 2 carbon intensity of our public equity and directly owned real estate portfolio by 2025, based on a 2019 baseline.

This reduction is in line with the recommendations of the AOA and is in line with scientific advice on cutting emissions to reach net zero by 2050, in accordance with the goals of the Paris Agreement to limit global warming to no more than 1.5°C.

In 2022, we will expand the scope of our portfolio emissions reduction target to include the infrastructure asset class. Again, this is in line with advice from the AOA, in which the Commissioners' team actively participates. We will add other areas of the portfolio into the target over the coming years as data improves and guidance develops.

Measuring our progress

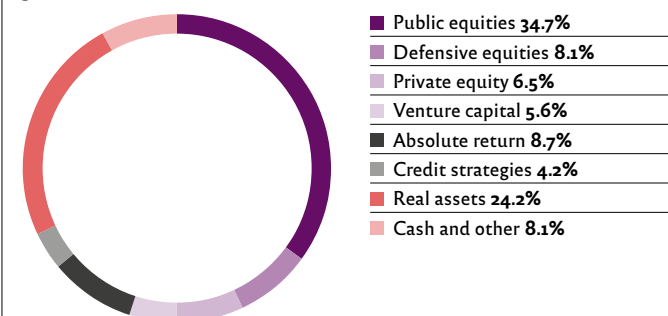
In the last year we changed data providers to MSCI to monitor the carbon footprint of our public equities portfolio. We compare our portfolio emissions with those of our globally listed equities benchmark. This data indicated that at the end of 2021 the Scope 1 and 2 carbon footprint of our equities portfolio was 113.8 tonnes of carbon dioxide equivalent (tCO₂e) per £1m invested, compared to 80.9 tCO₂e for our benchmark.

Our carbon footprint is above our benchmark as a result of a small number of stock selection decisions by some of our fund managers, and higher exposure to certain sectors such as utilities and materials, which are required for the transition to a lower carbon economy.

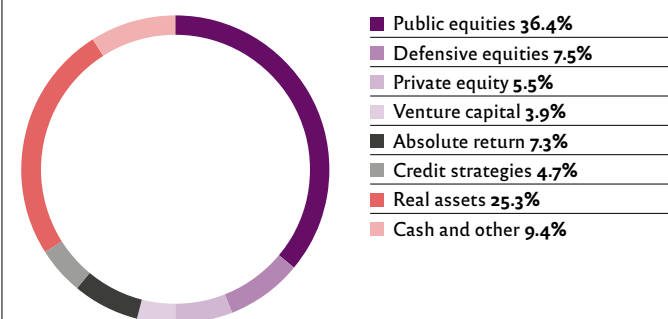
While our carbon footprint remains higher than the benchmark, the emissions in our portfolio have decreased significantly compared to both 2019 and 2020. The CO₂e intensity of our public equities portfolio has decreased by 27% year on year, as a result of changes with our fund managers and climate-related investment restrictions announced in December 2020 and implemented in 2021.

Breakdown of assets under management

31 December 2021



31 December 2020





CONVERSATION WITH ALAN SMITH, FIRST CHURCH ESTATES COMMISSIONER



“We believe “values drive value” and “good business is good business”. This, we believe, will be strongly reaffirmed over the next ten years.”

Alan Smith was appointed First Church Estates Commissioner by the Queen in October 2021. Alan’s career spanned 35 years in risk management, finance, investment banking and advisory roles at HSBC and KPMG. In his role at the Church Commissioners, Alan chairs the Assets Committee, a statutory committee responsible for the strategic management of the Church Commissioners’ £10.1bn at current prices as of December 2021 investment portfolio. Alan also sits on the Commissioners’ Board of Governors and is a member of the Archbishops’ Council.

Alan, can you please explain what the Church Commissioners for England do?

A: The Church Commissioners is a faith-based, universal asset owner, invested across the global economy. We manage a £10.1bn perpetual endowment fund to support the mission of the Church of England. Managing a fund to last forever means we have a long outlook! The Church of England as measured by some goes back 1,500 years. That gives perspective. The Commissioners have to think about our investments and impact far beyond the next quarter or year or decade.

What is the most important issue facing the Commissioners with regards to the investments it manages?

A: We at the Church Commissioners believe that the next ten years will be the most consequential period in our history. The investment decisions we make, especially around the energy transition and social challenges, will be long lasting – they must be for good. As an organisation with global impact this means our investment decisions must consider the entire world and everything in it – people, planet, climate and biodiversity.

What does that mean for how the fund is managed?

A: We must be values-driven investors. Our commitment to the net zero transition is driven by our dedication to the Church of England’s Marks of Mission, in particular those to transform unjust societal structures and to safeguard the integrity of God’s creation.

We believe “values drive value” and “good business is good business”. This, we believe, will be strongly reaffirmed over the next ten years.

What do “values drive value” and “good business is good business” mean in practice?

A: We must be engaged investors acting with a sense of agency and urgency. We expect the companies we invest in to have a transition plan that their board and senior management are firmly behind, especially in high-risk transition sectors such as fossil fuels. Having a just transition plan matters to us. We probe to see that employees and communities are well supported and that no one is left behind.

For example, we escalated our engagement with ExxonMobil through support of the activist campaign led by Engine No. 1. The campaign successfully strengthened Exxon’s board by replacing three directors (one-quarter of the board), adding much needed climate, transition and alternative energy expertise.

This campaign achieved something fundamental – the message that a purpose-driven, value adding corporation in the 21st century must be led by a climate capable board with strong, demonstrable sustainability leadership capabilities. This extends beyond Exxon and beyond the fossil fuel sector.





CONVERSATION WITH ALAN SMITH, FIRST CHURCH ESTATES COMMISSIONER CONTINUED

Christian climate campaigners and some Anglican priests have called on the Commissioners to divest from its fossil fuel investments. The fifth Mark of Mission says we should “strive to safeguard the integrity of creation and sustain and renew the life of the earth.” Why haven’t the Commissioners sold their oil and gas holdings?

A: Engaging extends to how we consider divestment. We genuinely seek to engage with companies to support them through a just and transparent transition. Where this is not possible, we will divest responsibly. We must be purposeful to ensure that while our portfolios may be trending towards net zero, that we haven’t just handed the problem to someone else. We would not want the world to still experience rising emissions because we divested and were replaced by investors indifferent to transition.

When making these difficult decisions, we take into consideration those who are already the most vulnerable and living in poverty; they are also those most at risk to climate change. Addressing and helping to prevent the climate emergency is one of our top priorities. We want change. That is why we are, for now, staying invested in Exxon, which until very recently had not addressed the climate crisis.

Aren’t you just delaying the inevitable?

A: We can envisage opportunities and innovations for us to work with investors who might buy these challenging assets, like private equity and debt funds, to accelerate the transition to net zero in a responsible way. We would welcome those opportunities.

How else does the Commissioners address the urgent climate crisis?

A: We invest in companies that seek to provide solutions to solve the climate crisis. We have £630m invested in climate solutions, including energy efficiency technology, electric vehicle charging infrastructure and renewable energy generation.

The Commissioners also co-founded the Transition Pathway Initiative (TPI) a publicly available tool to help investors assess companies’ preparedness for a low-carbon economy. We use TPI data to set hurdles for climate change standards for fossil fuel companies and decide how we engage, restrict or divest.

That sounds admirable, but the Commissioners is just one investor. What else can be done?

A: We engage through our membership of the UN-convened Net-Zero Asset Owner Alliance, and are committed to transitioning our portfolio by 2050. We have made our initial commitment to cut the emissions intensity of our portfolio by 25% by 2025. We engage with policymakers to ensure workers and communities are protected.

In 2021, IEA noted: “The pathway to the critical and formidable goal of net-zero emissions by 2050 is narrow but brings huge benefits”. As faith-based investors this “paraphrasing of scripture” certainly chimes with us. We strongly believe it can be achieved.

What are the proceeds of the endowment spent on?

A: The Commissioners’ endowment supports the mission and ministry of the Church of England in perpetuity through ethical and responsible management. Our ability to provide funding on a sustainable basis today and for future generations is made possible only through the returns on our investments.

We set our charitable distributions at the maximum level that we and our actuaries believe is sustainable. This helps to mitigate significant fluctuations in market performance or other economic factors. During the most recent three-year funding triennium (2020–2022) we committed to distribute more than £900m. These distributions contribute towards one-sixth of the total annual running costs of the Church of England. We are one of the largest charitable givers in the UK.

From 2005 to 2020, our financial support for the Church, excluding pensions, grew on average by 6.7% per year, which was three times the rate of inflation. This growth is enabled by the excellent long-term performance of our endowment fund.

How would you summarise what the Church Commissioners stand for?

We are for the Church. For the planet. For people. For the long term.

Alan Smith
First Church Estates Commissioner



CHIEF INVESTMENT OFFICER LETTER



“Being a responsible investor means being an active one, using the power of our voice to encourage companies to make the changes the world needs.”

We’ve long been driven by the conviction that responsible, sustainable investing must play a foundational role in our mission. We aim to have a positive impact on people, communities and the planet, and to create long-term value for our beneficiaries.

Being a responsible investor means being an active one, using the power of our voice to encourage companies to make the changes the world needs. We believe that engagement can lead to shareholder returns, as well as being the most effective way for investors, like the Commissioners, to bring about substantial improvements in a company’s ESG performance.

2021 was a landmark year in this context in many ways. We were pleased to see that our work driving a series of significant outcomes helped advance our ambition to be at the forefront of responsible investment globally, while delivering 13.3% in returns across our £10.1bn portfolio (as of December 2021), while continuing to deliver strong long-term returns above inflation.

Delivering 13.3% in returns across our

£10.1bn

portfolio (as of December 2021)

The Commissioners’ strategy is rooted in the ethical policies it adopts as a faith-based investor, and in its overarching investment policy in the context of delivering its long-term target investment return. We believe that taking account of ESG issues is an intrinsic part of being a good investor across all asset classes and hold this belief for both ethical and financial reasons.

We believe the best returns will be driven by combining aligned partnerships with the strongest external managers, and hold assets directly where we have competitive advantages. Where we choose to use external managers the quality of our partnerships is key to achieving the outcomes we target. We continually engage with our managers, as we do companies, to improve their ESG practices. We are continuing to invest in building out our Responsible Investment team that now consists of six people – almost as many as in the Manager Selection team.





CHIEF INVESTMENT OFFICER LETTER CONTINUED

An investment approach that works

Our thematic priorities are rooted in an attempt to understand and engage positively with the challenges of the next decade relating to climate change, nature loss and rapid social change. They were identified by our Responsible Investment team in late 2020, and approved by our Assets Committee in February 2021. The result is Challenge 2030, which focuses on three pillars guiding our work: Respect for the Planet, Respect for People both underpinned by strong corporate governance.

Central to Challenge 2030 is the task of working to reduce our carbon footprint and that of the investments we hold and the investee companies with which we engage. In the first quarter of 2021, we set our first emissions reduction target on the road to a net zero portfolio by 2050, as members of the Net-Zero Asset Owner Alliance (AOA). In addition we must invest in positive solutions; as of December 2020 we have £630m dedicated to climate solutions, including energy efficiency technology, electric vehicle charging infrastructure and renewable energy generation.

Indeed, the fact our portfolio has returned on average 10.7% per annum over ten years is due, in part, to our focus on sustainability and a willingness to try things early, such as timberland, infrastructure and venture capital. Forestry, in which we started investing a decade ago, makes up about 5% of the portfolio today, returning 34.6% in 2021 and 16.5% p.a. over the last ten years.

Impact for good

As responsible stewards of capital, we not only engage with our fund managers and companies in which we invest to bring about positive change, but increasingly look to where our assets can be best placed to bring about positive change through the investments themselves. The challenge for us is how to deliver positive real-world outcomes with the investments we make, while at the same time delivering strong investment returns that are required to contribute to the running of the Church of England and our beneficiaries.

As we look ahead to a more uncertain investment horizon with higher inflation, rising interest rates and the unwinding of monetary support by central banks, we intend to remain true to the investment principles that have guided us so far. We will not lose sight of the fact that the critical focus needs to be on real world impact.

Tom Joy
Chief Investment Officer

Portfolio return on average

10.7%

per annum over last ten years





OUR APPROACH

“We are an active investor committed to being at the forefront of responsible investment. Environmental, social and governance issues are an intrinsic part of how we invest, for both ethical and financial reasons.”

Our approach

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INTRODUCTION TO OUR APPROACH

From Bess Joffe, Head of Responsible Investment



“Respect for the Planet and Respect for People reflect our values and our beliefs that climate change, nature loss and unjust social structures are harmful to the world and present significant and complex portfolio-wide risks.”

The Church Commissioners’ Responsible Investment (RI) team considers it a privilege to help steward the Church of England’s endowment fund. We come to work every day aiming to apply our RI Policy, focused on people and the planet, and grounded in ethical and theological principles, to the best of our abilities.

Like other responsible investors we have ethical guidelines and policies. Yet managing the Church of England’s endowment means we have a distinctly Christian approach. The Responsible Investment team takes this approach into account in everything it does.

Sixty people work for the Commissioners’ Investment Division, which is considered to be a large team relative to the size of the fund. Six people are dedicated to the RI team and the Head of RI reports to the Chief Investment Officer. The various teams in the Investment Division work seamlessly with each other; in some ways, the RI team weaves the common thread across all our efforts. Our Securities team oversees both public and private investments, our Real Assets team manages our land and real estate holdings, and our Operational teams cover investment risk and performance, portfolio operations, legal, systems and investment accounting. The leads of each of these teams meet weekly, and we’re joined by the Head of HR and the Deputy Head of Real Assets.

The RI team works collaboratively with the other teams in the Investment Division to ensure everything we do – including risk management, fund accounting, direct and indirect investment, divestment and property management – is aligned with our responsible investing values and approach.

We partner with our colleagues, to the mutual benefit of our objectives and theirs. We work together to respond to questions from General Synod, the Church’s legislature and one of our most important stakeholders, which can ask us about any aspect of our work. We also collaborate with our Risk colleagues to deliver a quarterly report to our trustees, which screens our investment universe against our ethical restrictions.

We and our Securities colleagues assess the responsible investment approaches of existing and potential external managers. We’ve worked closely with our Real Estate colleagues to help them baseline their portfolio as we all work towards net zero. We have also supported them as they develop their strategy in response to the Archbishops’ Housing, Church and Community Commission.





INTRODUCTION TO OUR APPROACH_{CONTINUED}

The Investment Division includes a dedicated Investment Risk and Performance function, which, alongside providing independent performance reporting, provides a dedicated second line of risk control by monitoring and reporting on the investment guidelines and limits that are set out in the Investment Risk Framework. This framework is owned by the Investment Risk function and is one of the main policy documents governing all investment activity. The team is led by an experienced investment risk professional with a background in banking market risk and also buyside investment risk.

Current Responsible Investment team members bring varied and complementary professional experience, including environmental law, natural capital, private equity, impact, and corporate governance. With an updated structure for our team, we expect to attract talent with additional complementary skill sets, unlocking more potential. Due to natural attrition, we plan to bring in new team members this year to round out the team's skill sets and to have the expertise to promote agendas that are important to us.

We plan to have senior team members aligned to our commitments to people, the planet and the net zero transition, providing additional vision and strategic leadership to deliver on these objectives.

When we established our thematic priorities a year ago, they were ambitious and expected to be multi-year and long term.

In 2022 we will continue to focus on our Respect for People and Respect for the Planet themes, and we will continue to engage directly with companies on issues that are important to us including the environment, a just net zero transition, diversity and inclusion, and human rights. We are also advancing our efforts on AI and the Fourth Industrial Revolution, having engaged a consultancy to help us scope the issues that are material to our portfolio, and are beginning to work with a think tank and other investors to build an engagement approach about artificial intelligence ethics. Focus on these themes will continue throughout 2022 and beyond.

New people on the team will be expected not only to help deliver on these commitments but also to help us keep challenging ourselves and identifying risks and opportunities for responsible investors for the rest of the decade.

Bess Joffe
Head of Responsible Investment

“In 2022 we will continue to focus on our Respect for People and Respect for the Planet pillars, and we will continue to engage directly with companies on issues that are important to us including the environment, a just net zero transition, diversity and inclusion, and human rights.”





RESPONSIBLE INVESTMENT POLICY

The Commissioners' ambition is to be at the forefront, globally, of responsible investment. We continually evolve and refine our approach to environmental, social and governance (ESG) challenges and, in March 2021, adopted a new Responsible Investment Policy based on our Challenge 2030 strategy. This is based on three pillars that will guide our work: "Respect for the Planet", "Respect for People" and "Corporate Governance".

We believe that having a robust approach to challenges raised by ESG issues is an intrinsic part of being a good investor across all asset classes. We act with the conviction that ethical and financial imperatives can and should co-exist in this context. We think that investors who take account of ESG issues in a responsible, transparent, and accountable way will be better aligned with the broader objectives of society. Moreover, an ethical approach to investments aligns our activities to the Five Marks of Mission.

The Commissioners' responsible investment strategy is rooted in the ethical policies we adopt as a faith-based investor, and in its overarching investment policy in the context of delivering its long-term investment return. We believe that taking account of ESG issues is an intrinsic part of being a good investor across all asset classes and hold this belief for both ethical and financial reasons.

We have signed up to and adhere to the Principles for Responsible Investing (PRI), the UK's 2020 Stewardship Code and are committed to being aligned to the Paris Agreement. We achieve our RI goals through the following means:

Our RI Approach

- 1.**
The policies and responsibilities which determine our minimum activities
- 2.**
The primary codes and standards we sign up to which we base our activities on
- 3.**
The pillars of our work
- 4.**
How we achieve our goals

Ethical policies
as advised by the EIAG

CCfE Investment Policy

PRI

Stewardship Code

Paris Agreement alignment

Respect for the Planet

Respect for People

Corporate Governance

Environment

Social

Governance

Ethical exclusions

Advocacy and collaboration

Impact investments

Active ownership

Impact monitoring

Transparent reporting



ESG INTEGRATION



We review the performance of our investment managers through our proprietary RI Manager Framework, which was updated to include new minimum criteria in July 2021, allowing us to further differentiate managers' approaches, and now includes diversity criteria. Where we invest directly, we take account of all material ESG factors in our own investment assessments using our proprietary list of potential ESG issues. For example, we seek to manage ESG issues effectively across our direct real estate portfolio – commercial property, residential property, rural land, strategic land, and forestry – to achieve outcomes consistent with both our investment management objectives and our ethical investment policies.

Internally managed assets

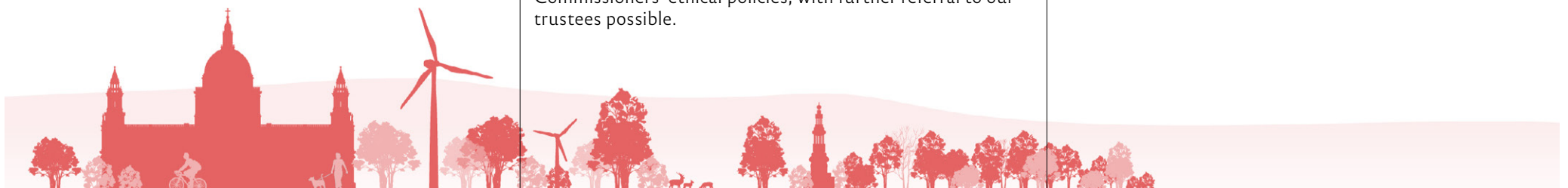
We incorporate ESG considerations in all asset classes, including property. We consider material environmental and social issues as part of our due diligence process, and we employ property managers after a tender process that includes ESG considerations such as health and safety, fire safety, disability non-discrimination, environmental and sustainability policies, quality standards, equal opportunities and data protection. We assess new direct property investments against our Property Investments Policy, checking property uses and tenants for any breaches of our ethical investment exclusions. Where cases are doubtful or involve uncertain interpretation, this is discussed with the Head of Responsible Investment to ensure adherence to the Commissioners' ethical policies, with further referral to our trustees possible.

Externally managed assets

Assets are managed through third party asset managers across asset classes including public and private equity, private debt, infrastructure, and absolute return. A significant amount of our work with our third party managers involves engaging with them to improve the way they integrate stewardship into their investment processes.

We also assess current and prospective managers across all asset classes against our proprietary RI Manager Framework. Managers must meet a minimum score to qualify as investable. This applies whether the manager invests in public equities or private markets. Having a consistent approach in this way is important to us as an ethical and responsible investor, yet comes with certain challenges across asset classes where there are varying levels of maturity with respect to the integration of ESG issues. We contractually incorporate RI considerations into our agreements with managers which outline our RI priorities and what we expect from them.

In July 2021, we updated and expanded our RI Manager Framework, refining our approach to allow us to further differentiate asset managers' RI activities and policies. For example, we have introduced new minimum RI criteria, and have raised the bar for what we count as a "good" or an "outstanding" investment manager.





ESG INTEGRATION CONTINUED

Externally managed assets continued

Our RI Manager Framework scores managers across seven dimensions: RI policy and governance; ESG integration; active ownership; climate change; RI reporting; assurance; and a newly incorporated dimension, Diversity & Inclusion (D&I). As a responsible investor, we believe that D&I is an important issue for society, but also can have important financial implications. Numerous studies have shown a positive correlation between strong D&I practices and financial returns. We will not invest with a manager where the investment team is solely one gender or ethnicity, or where its team lacks diversity and the manager is not actively taking steps to address and develop this. We regularly re-rate and engage with managers. If we do not see them advancing on this issue, we will divest.

OUTCOME

We were honoured when our approach was recognised with an Excellence in ESG Award from the British Private Equity & Venture Capital Association (BVCA) in 2021 for “having outstanding ESG measurement systems in place across the portfolio, alongside ethical investment standards, set at Board level, that all its fund managers are assessed against.”

Private equity – D&I and climate change

An example where these considerations jointly came into play in 2021 was in relation to a mid-market German investment manager, or general partner (GP), in the Commissioners' portfolio. The GP in question had a strong track record of investing in German Mittelstand (privately held, small and medium-sized) industrial companies but the portfolio had been cautiously managed by two long-standing managing partners with limited consideration for issues of wider stakeholder concern such as climate change and D&I. The Commissioners committed to the manager in mid-2020 at an inflection point in the GP's development, with long-serving managing partners retiring and new leadership coming in, which we saw as a potential catalyst for positive change. Since making the commitment we have closely engaged with the GP on climate change and improving D&I on an ongoing basis.

OUTCOME

Our engagement has been received positively by the incoming leadership at the firm. In the case of climate change, the manager expressed willingness to begin the process of carbon reporting as a first step towards reducing the carbon impact of the portfolio. We connected it with another GP in our portfolio which was more advanced down this path and had developed a full methodology for carbon reporting so they could exchange knowledge and experience.

In the case of D&I, the manager has made tangible steps towards improving the diversity of its investment team since our initial commitment, adding two new female

team members; changing its recruitment process to widen the pool of candidates from which it is able to choose; offering more flexible working arrangements to its employees; and signing up to a diversity initiative, Level 20, which promotes gender diversity in European private equity. The GP in question has informed us that our representations on these issues have been a material catalyst in it making these changes.

Private debt – climate change

In early 2021 we increased our investment with a private debt manager that invests in real estate and related companies in Sub-Saharan Africa. We noted that geography and asset type made climate change particularly relevant in ESG terms for these investments, and that this needed greater focus from our manager.

OUTCOME

As part of our decision to increase our investment, we partnered with other Limited Partners (LPs) to set out a list of requirements on ESG, including:

- appointing a dedicated senior ESG officer. She joined the firm in August 2021;
- establishing an ESG sub-committee with LP representatives. The first meeting was held in October, 2021, with the Commissioners participating; and
- development of a climate policy based on recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This was formally included in the manager's 2021 refresh of its ESG policy.





DIRECT ENGAGEMENT WITH LISTED EQUITIES

We believe, based on our own experience and assessment of academic studies, that engagement is the most effective way for investors, like the Commissioners, to bring about substantial improvements in a company's ESG. It can also lead to an increase in shareholder returns.

This is why we engage with companies, rather than immediately divesting, if a potentially remediable issue exists or emerges. The track record of groups such as Climate Action 100+ (CA100+), a coalition of more than 600 investors with \$55tn in assets (and of which the Commissioners is a member) further supports our conviction that engagement works. In 2021, CA100+ said that 52% of the companies it was targeting — accounting for about 80% of global emissions — had set net zero targets.

However, if it becomes clear that our engagement efforts or those of our managers are not leading to improvement, we have the right to divest from those companies. This is in line with a 2018 commitment to the General Synod by the NIBs to engage with and disinvest from fossil fuel companies that are not making progress to align with the goals of the Paris Agreement by 2023.

We focus our engagement priorities on material ESG issues identified after consultation with our stakeholders including our Investment Division, the other NIBs, the EIAG and wider Church stakeholders, as well as our global collaboration partners, and with the approval and supervision of our Assets Committee.

OUTCOME 1

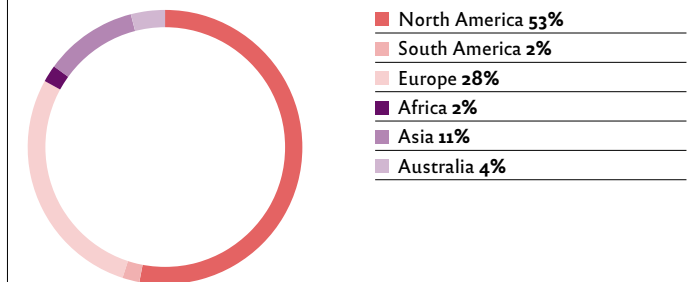
We are proud to be able to report outcomes that support this approach. Following extensive engagement efforts by the NIBs, including the Commissioners, nine high-carbon-emitting companies made changes in 2020 to meet climate hurdles set for 2021. As a result, they stayed off the restricted list for a further year, while 28 companies that did not meet the latest climate hurdles were restricted. The nine companies are: Adelaide Brighton (Adbri), Ecopetrol, Enbridge, Martin Marietta Materials, Nornickel, Occidental Petroleum, PGE, Severstal and Suzano.

OUTCOME 2

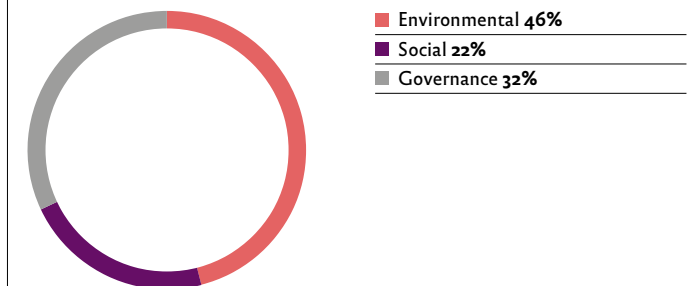
The Commissioners in December 2020 joined an ultimately successful campaign by an activist investor that led to the replacement of a quarter of the board of directors at ExxonMobil as part of an effort to encourage the US energy group to engage more robustly with the fossil fuel decarbonisation agenda. While Exxon did not meet the climate hurdles for 2021 and so will be restricted for the NIBs, the Commissioners have delayed the implementation of this restriction to continue engagement with Exxon and support the three new board members elected in June 2021 following the campaign. Remaining invested in Exxon for now will enable the Commissioners to keep their seat at the table to continue to push for change.

Details of our company engagement activities are set out under the sections about Respect for People and Respect for the Planet.

Geographical company engagements



Split by pillars





DIRECT ENGAGEMENT WITH LISTED EQUITIES CONTINUED

Controversies process

The Commissioners led the development and implementation of a controversies process adopted by the NIBs, based on quarterly screening of our respective public equity portfolios against breaches of international norms, using expert data from a respected service provider. Where issues are identified, we carry out more detailed due diligence, and then begin an engagement process with the companies. The NIBs' Human Rights Policy and Controversies Framework has been used to support the approach taken on major geopolitical issues and corporate engagements as well as to support a significant number of engagements with listed companies.

OUTCOME

In 2021 we engaged with over 30 companies (either directly or via our managers) on significant issues highlighted by a screening process in line with our belief in active engagement. We believe that if, after an active engagement, a company is not willing to address the issue at hand, we will move to restriction. We completed six such engagements in 2021, where the companies had adequately addressed the issues raised. In 2021 we restricted one company under this process after a two-year engagement process failed to lead to acceptable improvements in its human rights and environmental practices.

Systemic risk

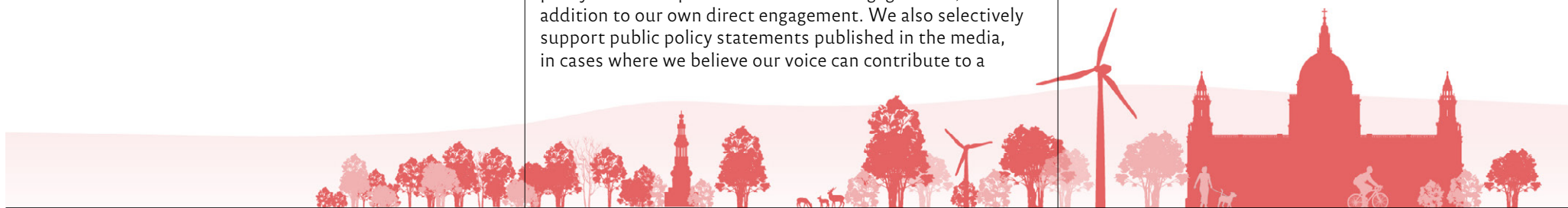
We believe investors should monitor the investment quality of companies in which they invest. That enables investors to be long-term and to assume stewardship responsibilities, such as engagement. In identifying themes or issues for potential engagement, we believe we have a responsibility to ensure that a programme of ethical engagement is conducted with investee companies that is appropriate for a NIB of the Church of England.

We believe that good stewardship and the application of our RI principles are drivers of long-term, sustainable performance and therefore contribute to mitigating risk. Nonetheless we are cognisant of systemic, market-wide risks and the EIAC carries out periodic "horizon scanning" to support all three NIBs in this respect. We also work closely on this with regulatory and industry bodies, including the UN PRI, the AOA, and our stewardship service provider, EOS at Federated Hermes (EOS).

Collaborative efforts

Work with others and you can often amplify your voice and your effect. This principle is why we believe that market-wide and systemic risks can often best be addressed by engaging with others, such as other investors, experts and non-governmental organisations (NGOs), to influence policy makers to respond to these risks. That's why we engage policy makers as part of collaborative engagements, in addition to our own direct engagement. We also selectively support public policy statements published in the media, in cases where we believe our voice can contribute to a

solution and which are aligned with our duties as an investor. Through our collaborations with others and our public policy engagements, we have managed to be effective at addressing systematic risk despite being an asset owner with relatively small AUM. Detailed examples of these successful efforts are set out later in this report. These include Climate Action 100+, the National Trust Land Owners Initiative, the Investor Policy Dialogue on Deforestation, the Investor Deforestation Commitment letter at COP 26, engagement with mining companies on First Nations and Indigenous Peoples, the Find It, Fix It, Prevent It modern slavery investor initiative, and investor engagement on Big Tech and human rights.





DIRECT ENGAGEMENT WITH LISTED EQUITIES CONTINUED

Expanding our engagement reach

In 2019 we appointed EOS as our external engagement provider. EOS supports our engagement on a wide range of ESG issues, complementing the work of our internal team. EOS enabled us to expand upon and complement the work of the internal team, by engagement carried out by EOS with our holdings on issues such as business strategy, risk and communication, and environmental and social issues like water and anti-microbial resistance. In 2021, EOS engaged with 182 companies.

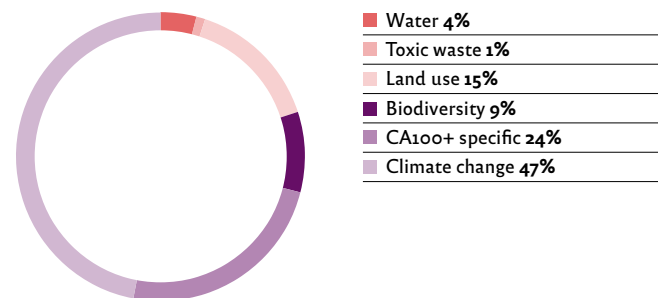
Details of some of these engagements are confidential to EOS.



EOS engagement with Tesco

EOS engaged with supermarket chain Tesco on paying its UK employees a living wage. While the retailer is not certified by the Living Wage Foundation, EOS was satisfied that Tesco's approach to pay was a reasonable alternative. This was on the basis that it appears broadly equivalent in value, that employees influence the composition of the package, and that they report relatively high levels of satisfaction with its competitiveness.

Environmental engagements by theme



Social engagements by theme

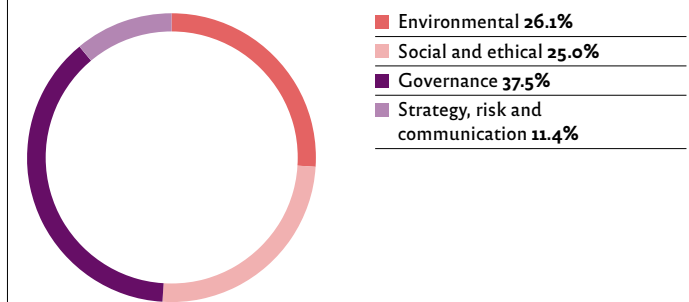


Issues and objectives engaged

Australia and New Zealand



Developed Asia

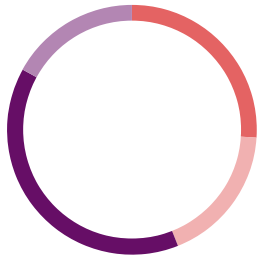




DIRECT ENGAGEMENT WITH LISTED EQUITIES CONTINUED

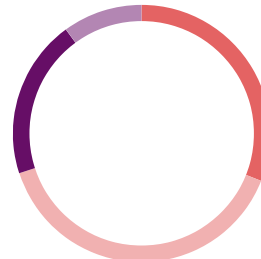
Issues and objectives engaged continued

Emerging and Developing Markets



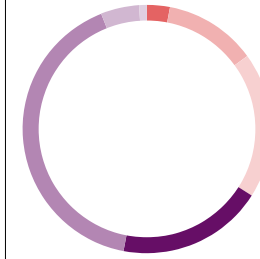
Environmental	26.2%
Social and ethical	18.5%
Governance	38.5%
Strategy, risk and communication	16.9%

United Kingdom



Environmental	31.0%
Social and ethical	39.1%
Governance	19.5%
Strategy, risk and communication	10.3%

Issues and objectives engaged – social and ethical



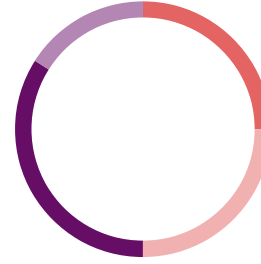
Bribery and corruption	2.9%
Conduct and culture	12.6%
Diversity	18.8%
Human capital management	19.3%
Human rights	40.6%
Labour rights	4.8%
Tax	1.0%

Europe



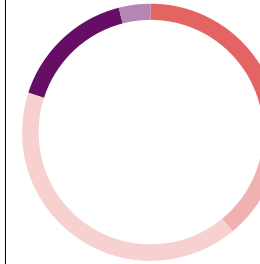
Environmental	28.7%
Social and ethical	19.8%
Governance	34.2%
Strategy, risk and communication	17.3%

Global



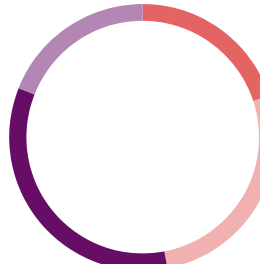
Environmental	24.8%
Social and ethical	24.8%
Governance	34.0%
Strategy, risk and communication	16.4%

Issues and objectives engaged – governance



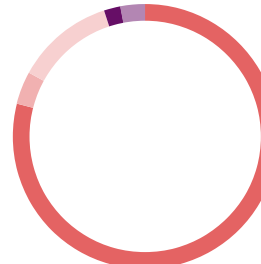
Board diversity, skills and experience	21.5%
Board independence	16.5%
Executive remuneration	42.3%
Shareholder protection and rights	15.5%
Succession planning	4.2%

North America



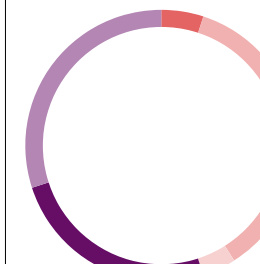
Environmental	19.9%
Social and ethical	26.6%
Governance	34.9%
Strategy, risk and communication	18.7%

Issues and objectives engaged – environmental



Climate change	79.2%
Forestry and land use	4.3%
Pollution and waste management	11.1%
Supply chain management	2.4%
Water	2.9%

Issues and objectives engaged – strategy, risk and communication



Audit and accounting	5.1%
Business strategy	36.5%
Cyber security	3.6%
Integrated reporting and other disclosures	24.8%
Risk management	29.9%



ETHICAL EXCLUSIONS

Our duty, along with our fellow NIBs, is to invest ethically, in a way that is distinctly Christian. This means our approach must align with the Church's teaching and values. In practice this covers everything from how we decide which assets to invest in, how we manage those assets both directly and through partners, and how we function as an organisation. Our ethical policies apply across all asset classes.

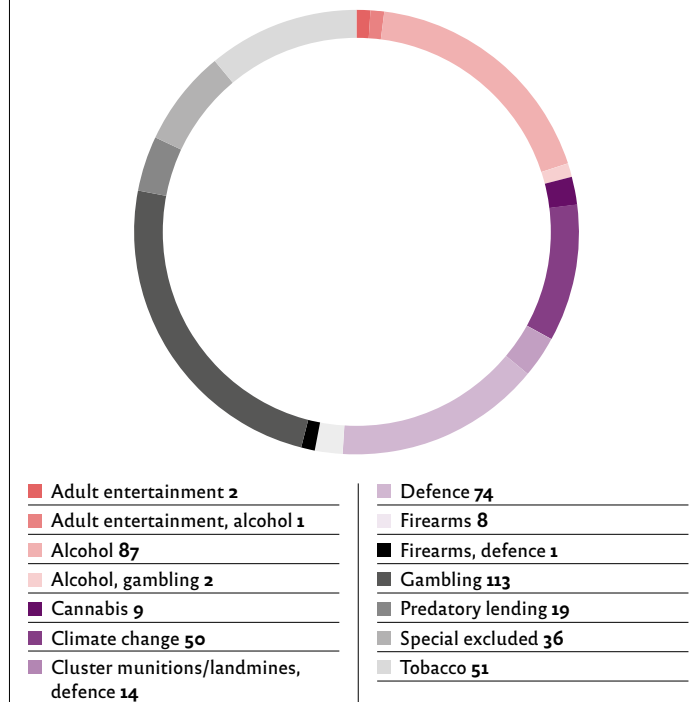
Our exclusions are agreed in coordination with the NIBs, based on our shared ethical investment policies and quarterly screenings of our portfolios, and informed by our engagements.

The Commissioners exclude from direct investments any companies that are involved in indiscriminate weaponry, conventional weaponry, non-military firearms, pornography, tobacco, alcohol, gambling, high-interest rate lending, extraction of thermal coal and production of oil from oil sands, subject to revenue thresholds. Our approach to indirect investments is shaped by our Pooled Funds Policy. This sets parameters for our use of pooled funds and a cap on any indirect exposure to restricted investments.

OUTCOME

In 2021 we identified 467 companies which were in breach of our ethical policies. The operational oversight of the ethical exclusions is undertaken by the Screening Committee. The Committee is formed by staff representatives of the NIBs. The Committee reports to the NIBs' CEOs.

Ethical exclusions by number of companies



This reflects the restricted list as of October 2021 (effective from October 2021 to January 2022). The list is based using constituents of the MSCI ACWI IMI, Russell 3000, and Numis Smaller Companies indices.





ETHICAL EXCLUSIONS CONTINUED

Fixed income

We split fixed income into two separate asset classes, public fixed income and private fixed income, which in total account for 4.2% of the endowment (as at year-end 2021). We have very little exposure to public fixed income with yields sitting at low levels versus historic averages, most of the allocation is focused on private fixed income.

In private fixed income, our investments are focused on loans to private companies. We work with our managers to encourage loans to be structured in a manner which takes account of ESG criteria. One manager completed its first sustainability-linked loan in 2021; the underlying company receives a reduction in interest rate on the loan should certain sustainability metrics be achieved. Another example is a manager that incorporates minimum ESG standards into loan documents; if these minimum standards are breached, then the loan could be considered to be in default.

Case study: private fixed income

We are invested with a private fixed income manager that focuses on fintech, specifically lending to high-growth small businesses. We have been focused on fintech given its potential to generate financial inclusion for those economically marginalised in society but also, where some business models are concerned, there is also a risk that it can cause harm through the selling of high-interest products and services. We have a strong relationship with this private credit investment manager and when it identifies a company to which it wants to lend in this sector, we engage with it to dive into the business model and business practices of the target company in question. We want to ensure the business does not engage in predatory lending practices, such as egregiously high overall interest rates charged, nor is engaged in inappropriate collection practices such as harassing customers who are in default. This approach is in line with advice given to us by the EIAG on high-interest lending. This process has led to the manager pressing companies concerned for greater detail with respect to customers and collection practices. The manager has explained to us how our involvement has helped it better understand its companies and their ESG credentials. This analysis has led to us declining certain investments with this manager and accepting others.





VOTING

Voting is one of the shareholder rights that we use to shape companies' policies and encourage good governance. We have a joint voting policy with the Church Investors Group (CIG), which sets out our approach to voting on issues including executive pay, governance, diversity, modern slavery, audit, climate change policy, tax and employee pay. The CIG is an organisation representing the charitable and pension funds of denominations, dioceses, religious orders and Christian-based charities. We expect boards to uphold best practice for addressing ESG issues as well as demonstrating risk oversight aligned with shareholder returns.

Our 2021 voting in numbers: 20,141 votes cast (of which 95.8% were management resolutions). We voted against 20.2% of management resolutions, while we supported over 80% of shareholder resolutions.

Our 2021 voting in numbers

20,141

votes cast (of which 95.8% were management resolutions)

20.2%

proportion of management resolutions we voted against or from which we withheld our vote

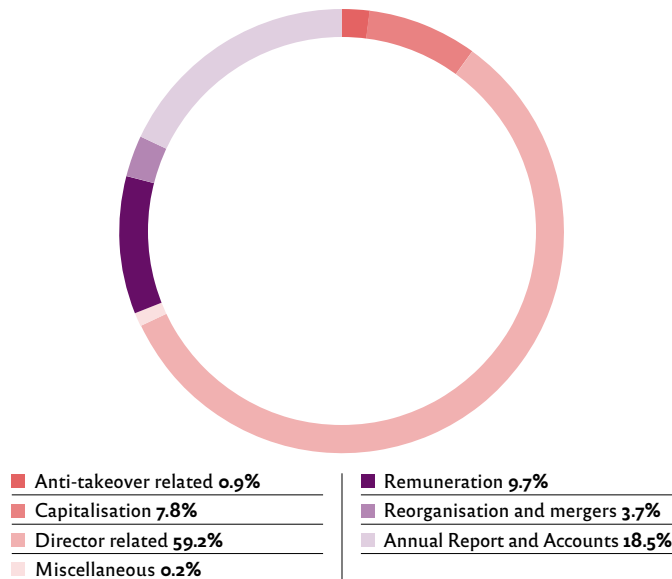
>80.0%

shareholder resolutions supported



For more info, please visit Church Investors Group

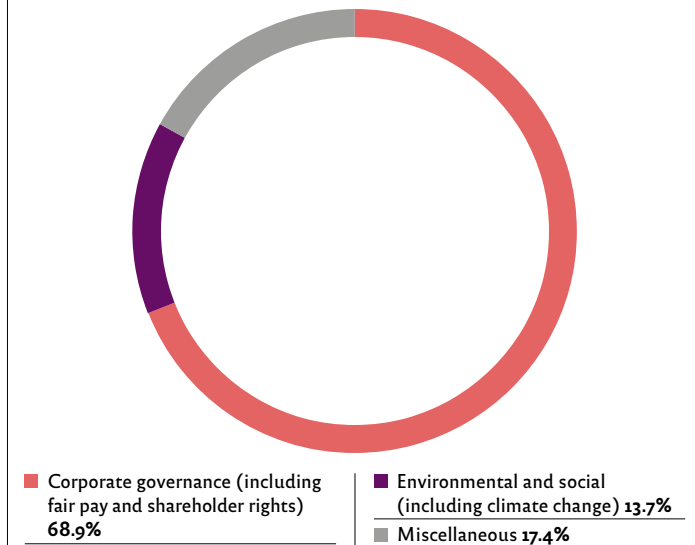
Management resolutions



Using our vote to dissent

When it comes to using our vote, the main areas that trigger dissenting votes are on executive pay, auditor independence and board composition. On executive pay, most of our votes in 2021 were triggered by schemes that failed to integrate ESG metrics into their variable pay schemes, or when we considered companies' short-term awards to be excessive. This is particularly prevalent in the US market where executive pay is outsized compared with other markets. Our dissent votes on board composition are high partly because there are many resolutions on this issue.

Shareholder resolutions



In 2021, 59% of the resolutions we voted on related to director elections. Examples of our dissent include voting against the reappointment of remuneration committee chairs because we are dissatisfied with executive pay and the lack of progress on the issue. We have also voted against the appointment of audit committee chairs because we are concerned about the long tenure of an external auditor and have no information that the board is addressing this issue.



VOTING CONTINUED

Board diversity

Expanding ethnic diversity on company boards won't happen by itself, as increasing numbers of business leaders recognise. In its latest annual survey of chief executives, consulting firm PwC found that in 2021 the proportion of those thinking that board diversity would happen naturally fell to 33%, from as high as 71% a year earlier. Through our voting and other actions, we believe we contributed significantly to moving the diversity agenda forward in 2021. This includes in relation to the UK Government's Parker Review, which set a framework to improve the representation of ethnic minorities on FTSE 350 company boards. The Commissioners fully endorse the Parker Review recommendations. We were one of the earliest UK institutional investors to integrate the Review's recommendations into our voting.

OUTCOME

In 2021 we voted against the chair of the nomination committee of a FTSE 100 board when there was no ethnic minority representation at board level. We also responded to the FCA consultation entitled "Diversity and Inclusion on Company Boards and Executive Committees" and showed our support for strengthening reporting regarding diversity across board and executive level. In 2021 we voted against the chairs of the nomination committees at three UK-incorporated companies as result of lack of adoption of the Parker Review's recommendations.

Having a say on climate

Shareholder resolutions on climate reached record levels in 2021, with 20 submitted compared with five the previous year, according to Georgeson, a governance consultancy. These were chiefly focused on seeking adoption of an annual shareholder vote on companies' climate strategies, being offered the ability to vote on companies' climate transition plans at future annual general meetings (AGMs) or pushing for disclosure of companies' climate transition plans. We are supportive of companies putting climate transition plans forward for shareholder approval as we expect companies to produce TCFD-aligned reports that should allow shareholders to understand how each company is considering climate in its long-term strategy. In 2021, we backed eight shareholder resolutions requesting companies adopt an annual shareholder vote on their climate strategies.

Shares on loan

A small proportion of our shares are on loan. They amount to less than 0.5% of our assets under management, and we follow the International Corporate Governance Network's Code of Best Practice and recall all stocks ahead of companies' meetings. Our commitment to vote on all our shares is also reiterated in our RI Policy.

Proxy voting due diligence

We rely on ISS as our proxy research advisor. We annually run due diligence to ensure that our votes have been cast according to our intentions and recommendations. In addition, we confirm monthly that all our listed mandate accounts are correctly set up in order to ensure that we vote all our shares.



Meta (formerly Facebook)

We supported a shareholder resolution at the 2021 AGM, requesting that the board produces a report on how the company manages risks associated with platform misuse. The proponent of the resolution maintained that the company had altered algorithms and taken other actions to de-prioritise extremist postings in the run-up to the 2016 US presidential election. The company has announced plans to evaluate content moderation tools. While the resolution did not pass, it received almost 20% of shareholder support, which is significant given that this was the first time a resolution like this had been submitted. Moreover, in November 2021 Facebook committed to ending its use of facial recognition technology, stating that while facial recognition technology is a powerful identity verification tool, "it needs strong privacy and transparency controls to let people limit how their faces are used" (see: An Update On Our Use of Face Recognition | Meta (fb.com)).

VOTING CONTINUED

SUMMARY OF OUR VOTING POLICY

Policy area	What we look for	Reasons for voting against or abstaining
Executive remuneration Executive Remuneration Policy	<ul style="list-style-type: none"> Adoption of local best practices Excessive awards Integration of ESG metrics Alignment with shareholder interests Alignment between executive and wider workforce pay 	<ul style="list-style-type: none"> Against remuneration report/policy when failing our principles Against chair of remuneration committee (when concerns persist for more than two years) and whole remuneration committee (when pay scheme breaches more than three principles of our executive remuneration policy)
Governance Statement of Ethical Investment Policy	<ul style="list-style-type: none"> Board composition and independence 	<ul style="list-style-type: none"> Against re-election of non-independent directors when board independence is not in line with local good practice and where there is evidence of poor attendance at meetings
Diversity Statement of Ethical Investment Policy	<ul style="list-style-type: none"> Board and senior management diversity 	<ul style="list-style-type: none"> Against chair of nomination committee when board composition is less than 40% female (FTSE 350) Against all members of nomination committee when board is less than 30% female (FTSE 100) and when board is less than 25% female (FTSE 250) Against chair of nomination committee when the board does not contain at least two female directors (S&P 500, TSX 60, FTSE Developed Europe (excl. UK), S&P/ASX 200 or an S&P/NZX 50 constituent) Against chair of nomination committee when the board does not contain at least one female director (all other jurisdictions) Abstain on report and accounts when there is no disclosure on gender diversity at executive committee level Against chair of nomination committee when board composition does not include at least one member from an ethnic minority (FTSE 100 and S&P 100)
Modern slavery Statement of Ethical Investment Policy	<ul style="list-style-type: none"> Modern slavery policy disclosure 	<ul style="list-style-type: none"> Abstain where the company's modern slavery statement is in the lower quartile of either KnowTheChain or The Business and Human Rights Resource Centre's ranking of FTSE 100 companies



VOTING CONTINUED

SUMMARY OF OUR VOTING POLICY CONTINUED

Policy area	What we look for	Reasons for voting against or abstaining
Audit statement of ethical investment policy	<ul style="list-style-type: none"> ▪ Disclosure of non-audit fees ▪ External auditor's tenure 	<ul style="list-style-type: none"> ▪ Against chair of audit committee where there is no disclosure or excessive non-audit fees or auditor's tenure exceeds 10 years (EU) or 20 years (US)
Climate change Climate Change Policy	<ul style="list-style-type: none"> ▪ TPI Framework and Performance Pathway ▪ TPI management ▪ Lobbying disclosure 	<ul style="list-style-type: none"> ▪ Against the re-election of board chair where the company has not reached at least Level 2 (i.e. companies assessed at Levels 0 and 1) of TPI Framework ▪ Against re-election of board chair where the company is included in the CA100+ programme, is in the electrical utilities (power generation) sector, or is covered by TPI but does not have a TPI Performance Pathway that is either aligned with or below the NDC (Paris Agreement) pathway ▪ Against auditor where the company faces risks associated with climate change but the auditor's report is silent on the issue ▪ Abstain on report and accounts applicable for CA100+ companies where there is no disclosure of lobbying activities or trade association membership
Responsible tax	<ul style="list-style-type: none"> ▪ Tax transparency 	<ul style="list-style-type: none"> ▪ Against re-election of board chair where the company (FTSE 350 and Russell Top 50) shows no disclosure of corporate tax management
Employee pay Executive Remuneration Policy	<ul style="list-style-type: none"> ▪ Living wage 	<ul style="list-style-type: none"> ▪ Abstain on remuneration report where companies that are FTSE 100 constituents in either the financial services, communications or pharmaceuticals sectors are not living wage accredited or have not met engagement standards
Tailings	<ul style="list-style-type: none"> ▪ Tailings corporate disclosure 	<ul style="list-style-type: none"> ▪ Against re-election of board chair where the company has not responded to a disclosure request made by the Investor Mining and Tailings Safety Initiative





IMPACT INVESTING

“Our overall goal for impact investment is to expand the risk-return frontier to become the risk-return-impact frontier. The Church Commissioners can better serve their beneficiaries and society if the real-world outcomes of investments are embedded into the investment process.”

Impact investing

28 Impact investing





IMPACT INVESTING

We regard impact investing as a continuation of our ESG strategy as we seek to influence the world positively with our capital. We have mapped principles from the Five Marks of Mission to impact investment themes, which are in turn aligned with the UN's Sustainable Development Goals. We developed this framework with input from other asset owners and key industry bodies such as the PRI, the Impact Management Project, and the Global Impact Investing Network. Our impact approach also covers our entire investment portfolio. It takes into account six key principles:

Six investment principles for our approach to impact investment

1. Fiduciary alignment

Our chosen approach should always be consistent with our fiduciary duty to provide an income for our beneficiaries.

2. Complementary

It should complement our existing responsible investment activities, and be useful and practical from an investor perspective.

3. Outcome focused

It should be rooted in the non-financial priorities of our beneficiaries, aiming to deliver these over time.

4. Universal

It should cover and be implementable across our entire multi-asset portfolio.

5. Flexible

It should have flexibility to evolve, given the nascency of impact investment and impact measurement.

6. Exemplary

It should be aligned with industry best practice, which will also continue to evolve.

At the end of 2020, £1.1bn, or roughly 12% of our fund was invested in social and environmental solutions. That was an increase of about £300m on 2019. This figure is as of 2020 because there is a roughly six-month lag on private markets data which delays our impact assessment of our investments.

In 2021, the Commissioners allocated an additional £100m to impact investment strategies, which accounts for a significant portion of invested capital over this period.

How we have developed impact

Our focus as responsible investors has increasingly moved from “doing no harm” to “doing good” in recent years. As responsible stewards of capital, we increasingly look to not only engage with our fund managers and companies but also look to invest directly in solutions. The challenge for us is how to deliver positive real-world outcomes with the investments we make, while delivering strong investment returns.

To do so, we formalised our approach to enhance the positive environmental and social impacts that could be generated by our portfolio. We looked at the Five Marks of Mission to help identify non-financial outcomes that are most important to our beneficiaries. Having identified the most critical non-financial outcomes, we translated these to financially tangible impact themes, using the PRI's Impact Investing Market Map and the Global Impact Investing Network's (GIIN) IRIS+ system to help identify such investment areas and ensure that no material impact themes were missing from an investment perspective. These in turn map to relevant goals and measurement indicators of the SDGs, which allows us to see how we are contributing to these goals in a consistent way.

Net-Zero Asset Owner Alliance investment in climate solutions

We see part of our work as collaborating with, and fostering, a community of responsible investors. As part of this, the Commissioners are co-leads of the AOA Financing Transition Track, one of the workstreams within the AOA (see Respect for the Planet section), and the lead of the climate solutions Reporting Workstream within this. Over the past year, the Commissioners along with AOA members have developed the AOA's climate solutions reporting template, which draws from our own experience, regional taxonomies, and related research to develop a reporting template for climate solutions and applicable key performance indicators (KPIs) that are comparable across regions and investor types. This is now used by all members of the AOA, which will help compare and benchmark climate solution investments across different asset owners.





IMPACT INVESTING CONTINUED

Housing

One particularly important focus area in 2021 has been affordable housing. Earlier this year, the Archbishops' Commission on Housing, Church and Community, published a body of work focusing on the housing crisis in the UK. Working in partnership with that Commission, the Church Commissioners have developed a strategy to respond to the key principles of the Commission's "Coming Home" report.

OUTCOME

The Commissioners have since committed a total of about £70m across three funds with a focus on affordable and social housing, with one fund particularly focusing on much needed healthcare housing that is socially-supported in the UK. These and other efforts were recognised in 2021 through an award by Investment & Pensions Europe to the Commissioners for impact investment, for the second year running.

Case study – Schroders and Civitas Social Supported Housing Fund

In 2021, the Commissioners invested £20m into the Schroders and Civitas Social Supported Housing fund. This fund is a collaboration between fund manager Schroders and social housing specialist Civitas. The aim of the investment is to provide bespoke, safe, and appropriate social supported housing for vulnerable adults, addressing a chronic lack of supply in this type of accommodation. These bespoke houses will not only lead to better qualities of life for those living in them, but also free up much-needed NHS beds. The investment team will track outcomes from this investment, such as the extent of improvement in the wellbeing of residents, through qualitative surveys and number of residents placed, as well as environmental improvements. All such investments are targeting net zero carbon emissions by 2050.

Another development in 2021 was the establishment of an "impact-first" portfolio at the Church of England through the Archbishops' Council. The Commissioners seeded, via our grants to the Archbishops' Council, a £16m "impact-first" investment portfolio called the Social Impact Investment Programme, which deploys "social investment capital" to advance the Church of England's missional objectives in the UK. This mandate's primary focus is on delivering positive social impact rather than maximising financial returns, and will focus on three areas: financial inclusion, the community and the environment.

OUTCOME

In January 2021 the portfolio was seeded and a dedicated portfolio manager was hired. Ten months later the first investment was announced in The Women in Safe Homes fund, a joint venture between fund managers Resonance and Patron Capital, working in partnership with specialist organisations to provide safe, stable and affordable homes for vulnerable women and their children who are homeless or at risk of homelessness. The fund aims to house 6,000 women over its lifetime.

We believe that long-term investors can better serve their beneficiaries and society if the real-world outcomes and considerations (via formal key performance indicators) are embedded into the investment process. To this end, in 2021 the Commissioners joined the Impact Management Project's Impact Frontiers collaboration, a group of asset owners and managers dedicated to developing risk-return-impact frontiers.





IMPACT INVESTING CONTINUED

How we review impact

We review our portfolio's alignment to our impact themes annually and are increasingly looking beyond alignment to outcomes of investment. This includes measuring renewable energy produced and carbon emissions avoided, or how many people were helped through affordable housing or greater medical access. Assessing our portfolio's alignment to impact themes helps us understand how our investments are contributing to positive real-world outcomes, and ensures we are on the right path to increasing the proportion of these investments throughout our portfolio. The ability to benchmark our fund's impact alignment is now an integral part of our responsible investing strategy in both our financial and non-financial aims, and we benchmark our fund's performance with regard to impact alignment annually. When it comes to climate solutions it is also crucial in our work to achieve a net zero emissions portfolio by 2050.



Focus: timberland for impact

Timberland, land mostly used for growing sustainable timber, is an area that could be particularly impactful from both an environmental and social perspective.

The investment team started developing a net zero strategy for these assets that will leverage and protect natural capital in mid-2021. All of our harvested timber is already certified as sustainable, and we work with managers to ensure compliance with global certification standards, such as the Forest Stewardship Council (FSC) or Sustainable Forestry Initiative (SFI), as well as with local best management practices, ensuring responsible and sustainable management. This is in line with guidance from certifications such as the EU Taxonomy and the Climate Bonds Initiative on what can be considered "green" timberland. While not all forests we acquire are certified on acquisition, we make best efforts to ensure new forests are enrolled under appropriate certification standards as soon as possible, preferably within 12 months of acquisition.

Impact approach to our timberland assets

Natural capital assessment of timberland and strategy

Throughout 2021, third party consultants assessed natural capital, including carbon, across the timberland portfolio. Their analysis found the portfolio to be contributing positively to the Commissioners' climate targets through carbon sequestration while delivering significant ecosystem services including timber. The Commissioners were commended for their concerted efforts to enhance sustainability, such as their enrolment in timberland certification programmes.

OUTCOME

The report estimated that the timberland portfolio sequestered about 410,000 tonnes of carbon dioxide equivalent (tCO₂e) in 2019, 32,000 more than timber harvesting of 378,000 tCO₂e during the year. Furthermore, the benefit of carbon stored in harvested wood products was estimated to be a discounted 89,000 tCO₂e for timber harvested during the year.

Based on the findings of the report and building on the positive contribution the timberland portfolio continues to make, below is a selection of ongoing work and next steps for continuing this effort.

Supporting international standards for greenhouse gas accounting in timberland

The Commissioners are set to conduct pilot testing using their timberland portfolio for new international standards being developed by the Greenhouse Gas Protocol (GGP) for guidance on how to account for emissions in the land sector and for removal of greenhouse gas (GHG) emissions. This is a highly important area of work for global accounting of worldwide GHG emissions and, in turn, reduction of the emissions. It is one example where the Commissioners are using their assets to advance the global climate change mitigation effort. Agriculture, timberland, and other land use is currently a significant source of global GHG emissions, contributing to about 23% of emissions globally. The way to account for these emissions is underdeveloped, so addressing this is therefore vital in reducing the negative impact of these activities, and potentially turning this sector into a negative sequester of GHG emissions — one of our aims.





RESPECT FOR THE PLANET

“We are committed to making a positive difference when responding to the climate emergency. In addition to reducing emissions within our portfolio, we want to see the decarbonisation of the real economy.”

Respect for the Planet

32 Climate

36 Environment and natural capital





CLIMATE



Net zero strategy

As part of our membership of the AOA we set our first short-term emissions reduction targets in Q1 2021, aiming for a 25% reduction in direct real estate and public equity emissions intensity by 2025, compared with a 2019 baseline. This came after significant and ongoing work to gather data on emissions across all asset classes, a process which has set us up for improved progress tracking and enabled us to gain greater insights on climate risk and emissions performance.

As part of this strategy, we are working with our investment managers and outlining our expectations with regard to climate risk and alignment with the low-carbon transition. We encourage our managers to join initiatives such as the IIGCC or Net Zero Asset Managers Initiative and to set their own short and long-term climate goals. This work has run in parallel with updating the RI Manager Framework, which now includes more detailed and minimum climate change criteria for us to be partnered with an asset manager. We also review company alignment plans with regard to the transition, transition plans, and, ultimately, climate risk that our managers, through their investments, hold on our behalf.

As per updated guidance from the AOA – which we developed along with other asset owners – infrastructure will be the next asset class for which we adopt carbon reduction targets. We've been working with our investment team colleagues and infrastructure fund managers to establish the carbon footprint of the infrastructure portfolio and assess its likely compliance with AOA decarbonisation targets. Carbon reporting is now a requirement for all new investments in this asset class, which we contractually agree with the manager. If a manager does not initially have the capabilities to deliver on this, we advise on ways in which it can meet this objective. Given our focus on the green transition in this asset class we are confident with regard to our forthcoming targets.



<https://www.unepfi.org/net-zero-alliance/resources/target-setting-protocol-second-edition/>



Case study: commercial property

Over 2021 we implemented a number of measures to improve the environmental profile of our commercial property portfolio. Across the Hyde Park Estate we switched all vacant units to green energy suppliers, and have adopted green leases for all new lettings. Connaught Village is the retail and restaurant hub at the heart of the Hyde Park Estate. We have worked and continue to work with Westminster City Council to invest in the greening of the public realm including Connaught Village Green, a proposed scheme which will comprise large planters with perennial planting, a rain garden, a water fountain and areas of public seating. A dedicated electric charging station is planned for the Hyde Park Estate in 2022. Additionally in the commercial portfolio we have three electric vehicle (EV) charging points at Wycombe Retail Park and we are looking to roll out more at Brislington Retail Park.





CLIMATE CONTINUED

Climate change engagement

Companies that continue to make changes to their emissions and strategy are a testament to the power of engagement. We are of the view that we have more influence on fossil fuel industries by being “in the room” to help address the climate crisis and bring about real-world change.

Equally, we are clear that we will divest from any fossil fuel companies by 2023 that are not making significant progress in line with the goals of the Paris Agreement. This is in line with the NIBs delivering on their 2018 commitment to the General Synod to engage with and disinvest from high carbon-emitting companies that are not making progress to align with the goals of the Paris Agreement by 2023.

Following extensive engagement efforts by the NIBs, nine companies made changes to meet 2021 climate hurdles, which were set by the NIBs using Transition Pathway Initiative (TPI) data. As a result these companies stayed off the restricted list for a further year, while 28 companies that did not meet the latest climate hurdles were restricted.

Companies the NIBs engaged that made changes and remain unrestricted are Adelaide Brighton (Adbri), Ecopetrol, Enbridge, Martin Marietta Materials, Nornickel, Occidental Petroleum, PGE, Severstal and Suzano. American Electric Power’s (AEP)’s new series of mid to long-term emissions reduction targets means that it has become unrestricted, reversing last year’s assessment that the company had not made enough progress.

Companies that are restricted are BHP Billiton, BP, Chevron, China Petroleum & Chemical, CNOOC, ConocoPhillips, Dangote Cement, Devon Energy, Eneos, ExxonMobil, Gazprom, Lukoil, Marathon Petroleum, NTPC, OMV, Petrobras, Petrochina, Phillips 66, Power Assets, PTT, Reliance Industries, Rosneft Oil, Santos, SK Innovation, Southern Copper, Teck Resources, Valero Energy and Woodside Petroleum.

Three companies are under review: Equinor, Origin Energy and Sasol. In line with our engagement-led approach we will continue to engage robustly with these companies before reviewing their transition plans at the end of 2022, and following further assessment by TPI.



Case study: Bayer

Engagement through Climate Action 100+ results in climate review

The Commissioners and Union Investment engaged with Bayer, the German pharmaceuticals and agribusiness company, as part of CA100+ and coordinated by the Institutional Investors Group on Climate Change (IIGCC). The engagement took place throughout 2021 with the aim of persuading the company to review and make public the climate readiness of the industry associations of which it was a member. In October 2021, Bayer published a review setting out its position on climate policy and assessing the net zero and climate change positions of the industry associations and trade groups of which it is a member. The report found that while 32% of the industry association positions examined were fully aligned, over half had no public positions on climate-related issues that were priorities for Bayer. We welcomed Bayer’s commitment to transparency and to addressing misaligned and partially misaligned industry associations and noted that we were looking forward to seeing tangible results in this regard. We continue to engage with Bayer.





CLIMATE CONTINUED



Case study: ExxonMobil

The Commissioners have a long history of active engagement with companies, leveraging their position as an investor to drive positive change at corporates which mitigates risk and benefits both stakeholders and society. Our engagement with ExxonMobil exemplifies how we have been able to escalate engagement over a period of time, which ultimately resulted in a fundamental shift in strategy at the company and sent a signal that continues to ripple across the oil and gas sector.

The Commissioners started their engagement in 2015 with Exxon behind closed doors, which would have given the company the opportunity to make changes proactively and without public pressure. Engagement covered topics including disclosure, governance, and climate performance.

The Commissioners, in 2017, successfully co-filed a shareholder resolution. It asked the company how its business model would be affected by global efforts to limit the average temperature rise. The resolution gained 62% of shareholders' support. This led to some improvements in disclosure, industry collaboration and governance in the following years.

Starting in December 2020, the Commissioners publicly supported a campaign led by activist investor Engine No. 1, which urged Exxon to develop a pragmatic energy transition strategy and refresh its board, urging the company to focus on "accelerating rather than deferring the energy transition". The campaign, also supported by CalSTRS, the US's second-largest pension fund, among others, in May 2021 resulted in a successful vote to replace one-quarter of the twelve-member board of directors with experts on a range of climate and technology subjects.

As of the end of 2021, these directors have already made their presence felt, with the announcement of significant reallocations of capital towards low-carbon solutions and new emissions reduction targets.

While the election of new directors was an early improvement there is an ongoing boardroom battle for the longer-term direction of the company. Until Scope 3 emissions targets are set the company is not truly engaging with the energy transition. Despite Exxon failing the 2021 hurdle, the Commissioners, having consulted the other NIBs, will remain invested in the company to demonstrate support for these directors, and will re-evaluate the company's progress at the end of 2022.

Other CA100+ engagements

The Commissioners remain heavily involved in other CA100+ engagements with companies in which we have significant holdings. We spoke at the 2021 AGM of LyondellBasel, a Dutch plastics, chemicals and refining company, pushing management to improve its climate targets, an action that contributed to the release of a net zero commitment in the third quarter of 2021. Ongoing engagements with utilities have also contributed to progress at companies including Vistra Energy, a Texas-based energy company, and PG&E, as well as paving the way for positive engagements on a "just transition", as set out in the Respect for People section.

Net zero banking

Banks, like investors, have a vital systemic role to play in the urgent transition to a low-carbon economy. The Commissioners have co-led the development of an extensive set of investor expectations for banks, with Sarasin and Partners, EOS at Federated Hermes and IIGCC. They are supported by 35 investors with \$11tn in assets under management (AUM). The expectations are focused on a public commitment to become net zero by 2050 with explicit interim targets, withdrawal of finance from recipients that show no evidence of transitioning, and the scaling up of green finance. The initiative targets the world's 25 largest fossil fuel funders and is working with TPI to develop a framework for assessing the banks' net zero strategies.





CLIMATE CONTINUED

Public policy and stakeholder engagement

Net-Zero Asset Owner Alliance: policy and financing transition policy workstream

The Commissioners are members of the Net-Zero Asset Owner Alliance policy workstream, which has played a significant role in advance of the COP26 meeting in Glasgow, Scotland, engaging with the US, the European Commission, the UK, Japan, and China. The workstream also feeds into the Glasgow Financial Alliance for Net Zero (GFANZ), and the High Level Champions Finance workstream. Through the AOA we have also contributed to several papers, including on carbon pricing and strategic policy, for example.

Financing the transition

The Commissioners are co-leads of the AOA Financing Transition Track, and lead the Climate Solutions Reporting Workstream within that track. Over the past year the Commissioners, along with AOA colleagues, have developed the AOA's climate solutions reporting template, which draws from regional taxonomies and related research to develop a reporting template for climate solutions and applicable KPIs that is comparable across regions and investor types.

UK Sustainable Finance and Investment Association (UKSIF) Policy Committee

The Commissioners also chair the UKSIF Policy Committee. Though this organisation, we are also represented on the Government's Green Technical Advisory Group (GTAG) Advisory Board. This is the independent expert group appointed to advise the UK Government on standards for green investment. The Commissioners are also currently represented on UKSIF's Green Taxonomy Working Group, whose role will be to advise UKSIF's policy positions at meetings of the GTAG.

COP 26

In advance of COP26, in November 2021, the NIBs and the Environmental Working Group (EWG) of the Church of England set up a monthly Church COP working group. This was led by the Commissioners to ensure a coherent approach and effective coordination and communication across the Church in relation to COP26. The group agreed to the following initiatives, aligned with the "Making COP Count" messaging of the Faith for Climate Group, an interfaith climate coalition of which the Church of England is a member:

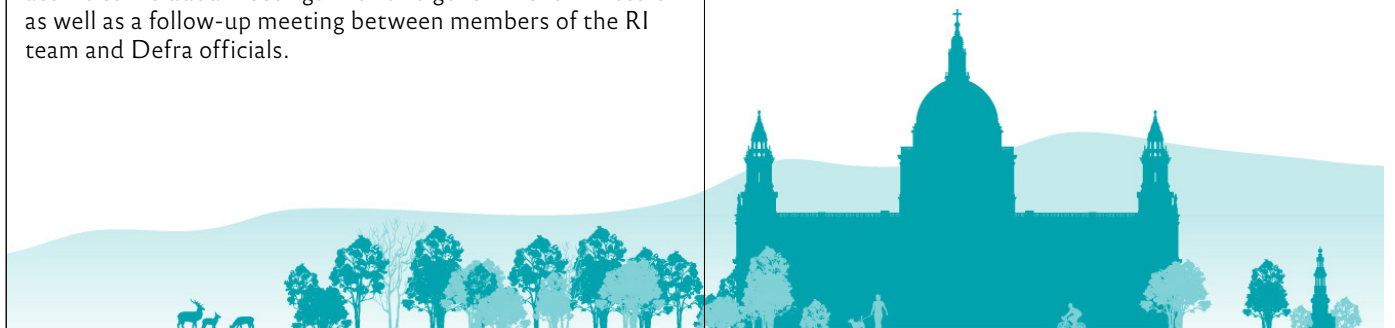
- to ask the UK Government, as COP host, to stop subsidising fossil fuels;
- to raise the profile on Loss and Damage and delivering finance to poorest countries; and
- lobbied to include air transport and shipping within the accounting framework on the Paris Agreement.

OUTCOME

The Church COP working group supported several events to ensure common messaging across the Church, including webinars to the Church Investors Group and the whole staff of the National Church Institutions (NCIs), as well as other church stakeholders. The Church COP working group's activities included meetings with two government ministers as well as a follow-up meeting between members of the RI team and Defra officials.

Climate risk and scenario analysis

In 2021 we boosted the capability we have to assess the climate risk of our portfolio. We now assess our public equities portfolio twice a year across three measures: carbon emissions and intensity, transition plans, and financial value at risk. On the last measure, we use scenario analysis to estimate potential financial value at risk across three different climate action scenarios in line with the Network for Greening the Financial System's (NGF's) scenarios and advice. We use this analysis to engage with our investment managers on companies that we view as posing a particular risk to our portfolio, and are working with colleagues across the Investment Division to include this as part of our Investment Risk Framework. We are assessing providers and methodologies to bring climate risk analysis into other asset classes.





ENVIRONMENT AND NATURAL CAPITAL

We regularly assess our £10.1bn fund for its impact on the environment and to ensure we are delivering on our Respect for the Planet pillar. In this context, the protection of biodiversity is a priority for the Commissioners. Our approach to natural capital and climate change includes creating a coalition of investors seeking to engage major public companies on nature loss and achieving net zero by 2050 across its investment portfolio, including its land assets.

OUTCOME

We have worked with leading environmental investment consultants to identify the carbon emissions, sequestration, and natural capital profile of our rural, minerals, strategic land, and timberland investment portfolios, which account for about 15% of the fund. This has covered carbon emissions for the entire real estate portfolio and natural capital factors (like water quality and habitats) for our rural and timberland portfolios. The data gathered enabled us to set our 2025 emissions reduction target and start the process of working with consultants to develop net zero approaches for the different asset classes.

Having identified the carbon emissions, sequestration and natural capital profile of the rural, strategic land and timberland investment portfolios, the investment team has now begun developing a net zero strategy for these assets that will leverage and protect natural capital and encourage collaboration with our tenants. ESG considerations will be further integrated into the Real Assets team, with a new hire who will serve as ESG lead in that team and is set to join in the second quarter of 2022.

Rural

We are developing a net zero carbon strategy for our rural portfolio as we deliver on our “Respect for the Planet” responsible investment strategy. Some of the ways land can be used responsibly to tackle climate change include a focus on creating more woodland, reconnecting rivers, and preventing flooding as well as the management of soil and restoration of marshland habitat.

OUTCOME

The Commissioners, in November 2021, joined an initiative led by the National Trust to bring together some of England’s largest landowners and managers, who collectively own and manage around 30% of this part of the UK’s land, to sign up to a range of commitments to help the Government meet its net zero ambitions and reverse environmental damage. Others include the Duchy of Cornwall, Soil Association and Woodland Trust. The organisations have committed to work together to ensure that our natural resources like peat bogs, woodlands and rivers are used as effectively as possible to tackle the climate crisis.



Hyde Park Estate

Stretching across 90 acres of West London and adjacent to Hyde Park itself, the Hyde Park Estate consists of gardens, other green space and about 1,700 residential, commercial, and retail properties. The Commissioners own the freehold of 242 residential buildings across the Estate comprising over 1,300 individual houses or flats. Based on a Georgian model grid pattern, the Estate was initially developed in the 19th century. It originally belonged to the Bishop of London before being transferred to the Ecclesiastical Commissioners in 1868 (which later became the Church Commissioners). The Estate has become a wildlife oasis in Central London, with key sightings in the gardens in 2021 including a cormorant, a heron, a pheasant, and a fox with its cubs.

OUTCOME

Sixty-four new trees were planted across the Estate in 2021 in six different areas. Green space measurement of Commissioners-controlled areas was reported as 12.5% in 2020, which increased slightly in 2021 with the creation of a new garden, known as the Reflections Garden, included. Finally, 840m² of new, specialist perennial and annual wildflower planting was undertaken in eight gardens across the Estate.





ENVIRONMENT AND NATURAL CAPITAL CONTINUED

Rural continued

Rural Advisors' Day – sustainability focus

In December 2021 our rural asset managers hosted a sustainability and ESG briefing for over 45 representatives of their legal and property advisors in London to update them on changes to the Commissioners' environmental outlook, our developing environmental strategy, and legislative updates.

As a result of several presentations and an open debate, the representatives significantly advanced their understanding of the Commissioners' environmental targets and how ESG concerns are becoming integrated in all investment and management decisions.

Farm lettings and ESG

The environmental credentials of incoming tenants have been an increasing focus of recent lettings. For example, a 153-acre former dairy farm located near Carlisle was recently marketed to let for ten years on a modern Farm Business Tenancy. We had a positive response locally and much interest for the tenancy. The particulars set out the Commissioners' desire for a forward thinking, environmentally aware tenant, able to assist with our net zero goals. A requirement for a collaborative approach between tenant and landlord was included, with the landlord "seeking nature-based solutions, opportunity for biodiversity improvement and enhancement of soil health". The tenancy details also specified that the Commissioners endeavour to attract tenants willing to accept, and engage in, carbon, natural capital and biodiversity or ecological assessments.

Carbon and natural capital baseline work and next step strategy

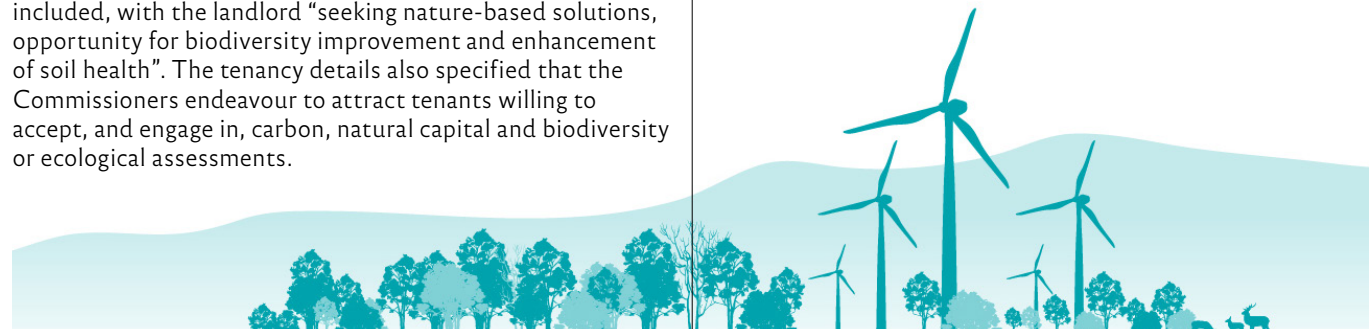
In line with the real assets portfolio, the rural portfolio is committed to achieving a net zero target by 2050. During 2020 the rural asset managers instructed a consultant to deliver a baseline natural capital and carbon assessment looking at Scope 1, 2 and 3 emissions.

OUTCOME

Completed in 2021, the report provided an insight into the portfolio's key sources of GHG emissions and an overview of the extent and condition of the natural capital assets. Alongside our environmental advisors, our internal rural asset managers are co-creating a natural capital, carbon, and sustainability vision for all land assets, which will in turn form the basis of the rural portfolio's environmental strategy.

Rochester Estate – Commissioners' visit with an environmental focus

In November 2021 our Rural Asset Management team hosted a visit to the Rochester Estate in Kent, with a focus on the environmental improvements and management which have taken place there. The visit was attended by Second Church Estates Commissioner, Andrew Selous MP; Charlotte Brunning, member of the Commissioners' Property Group; the Commissioners' Chief Executive, Gareth Mostyn; and our Head of RI, as well as several other members of the Commissioners' team. The visit showcased some of the positive environmental work, regenerative farming practices and renewable energy projects across the Commissioners' land holdings, which have been carried out by farming tenants.





ENVIRONMENT AND NATURAL CAPITAL CONTINUED

OUTCOME 1

Learning from tenant behaviour on environmental stewardship

The Commissioners' Rural Asset Management team provided an update on our environmental focus and desire to help tenants move to carbon-reduced farming through the current agricultural transition. One farming tenant focused on vegetable crops which are provided to major supermarkets, where they shared details of their organic farming practices, as well as use of crop rotations and appropriate soil management plans.

OUTCOME 2

Fostering collaboration to support tenants on environmental stewardship

The Commissioners visited a 470-acre farm holding on the Hoo Peninsula, Rochester, and saw examples of improvements to estuary marshland that the tenant had undertaken over many years, working collaboratively with Natural England and the RSPB. The Commissioners will seek to collaborate with and support the tenant in further improvements.

Other initiatives and engagement by our rural asset managers

Our rural asset managers have developed an open dialogue and good relationships with important stakeholders within the agricultural industry as well as peers, supply chain bodies and industry representatives. Regular meetings are held to ensure that joined-up thinking and best practice are shared, and to ensure we are at the forefront of legislative developments.

Strategic land

ESG Framework

In February 2021 the Strategic Land team produced a materiality report outlining ten ESG priority areas considered most relevant to the Commissioners' development land portfolio including: climate change and net zero carbon, biodiversity, housing access and affordability and strategic land stewardship. This followed extensive engagement with key stakeholders, both internal and external.

Throughout 2021 the team progressed the second stage of the ESG Framework's development with our consultant Hoare Lea. Suitable metrics were identified and applied to the ten ESG priority areas and a baselining assessment of the portfolio's current performance was undertaken across a sample of housing sites. The list of metrics was discussed with the Property Group, senior leaders, and members of the Church's Housing Executive prior to the baselining work commencing. The baselining work was concluded by the end of 2021.

OUTCOME

The baselining work will culminate in a report confirming the findings of the portfolio baselining assessment and identifying appropriate metrics/KPIs to be adopted for the portfolio, which will be implemented through 2022 and beyond. Our focus will be on implementing and integrating the recommendations of the reports within the portfolio. We also want to highlight findings within the baselining assessment that demonstrated where the portfolio was already performing well in relation to ESG matters, for example the team's approach to public and stakeholder engagement, including engagement with local dioceses and churches.

ESG criteria for site sales

In 2021, for the first time we required that the purchaser of a consented land parcel in Greetwell, Lincolnshire, detailed the additional social and environmental benefits it would implement as part of the development including details as to apprenticeships, involvement with local schools and additional recreational facilities and environmental measures on site.

OUTCOME

The sale agreements exchanged in 2021 and included a contractual requirement for the ESG commitments to be implemented and for the developer to provide an annual monitoring statement to the team to ensure compliance. The team is also seeking to develop and agree standardised ESG criteria for all future site disposals, which will require any potential development partner to detail their ESG credentials and site-specific proposals. These commitments will then be incorporated, as standard, within the agreed sale contracts as legally binding obligations on the purchaser.





ENVIRONMENT AND NATURAL CAPITAL CONTINUED

Deforestation

Deforestation is responsible for around 13% of global emissions and is a huge contributor to habitat and biodiversity loss. Ending deforestation and implementing natural climate solutions could provide a third of the solution to achieving the Paris Agreement climate target, help halt and reverse biodiversity loss, and support human rights and food security.

Exposure to deforestation through companies' operations or supply chains poses significant regulatory and reputational risks, not to mention the longer-term systemic risks driven by the physical impacts that stem from forest loss. This makes the issue increasingly important for investors and companies.

Public policy collaboration

Investor Policy Dialogue on Deforestation (IPDD)

In 2020, the Commissioners helped found the Investor Policy Dialogue on Deforestation (IPDD), a collective of investors with \$7tn in AUM that aims to engage with public agencies and industry associations to promote sustainable land use, forest management and respect for human rights.

The approach of the IPDD, on whose Steering Committee we sit, is to build long-term relationships with key stakeholders to highlight the risks that deforestation poses to societies and economic growth as well as our portfolios. By encouraging the adoption and implementation of regulatory frameworks that ensure the protection of such natural assets and human rights we hope to bring about positive environmental and social outcomes as well as protect the value of our holdings in these countries from physical, regulatory, and reputational risks.

As of December 2021, IPDD was supported by 57 global institutional investors, from 18 countries. The coalition is currently engaging with the Brazilian and Indonesian Governments on deforestation, both of which rely upon so-called "avoided tropical deforestation" as the core component of their Nationally Determined Contributions to the Paris Agreement (NDCs). In July 2021 funding was secured for a further three years for the IPDD under the Secretariat of the Tropical Forest Alliance of the World Economic Forum.

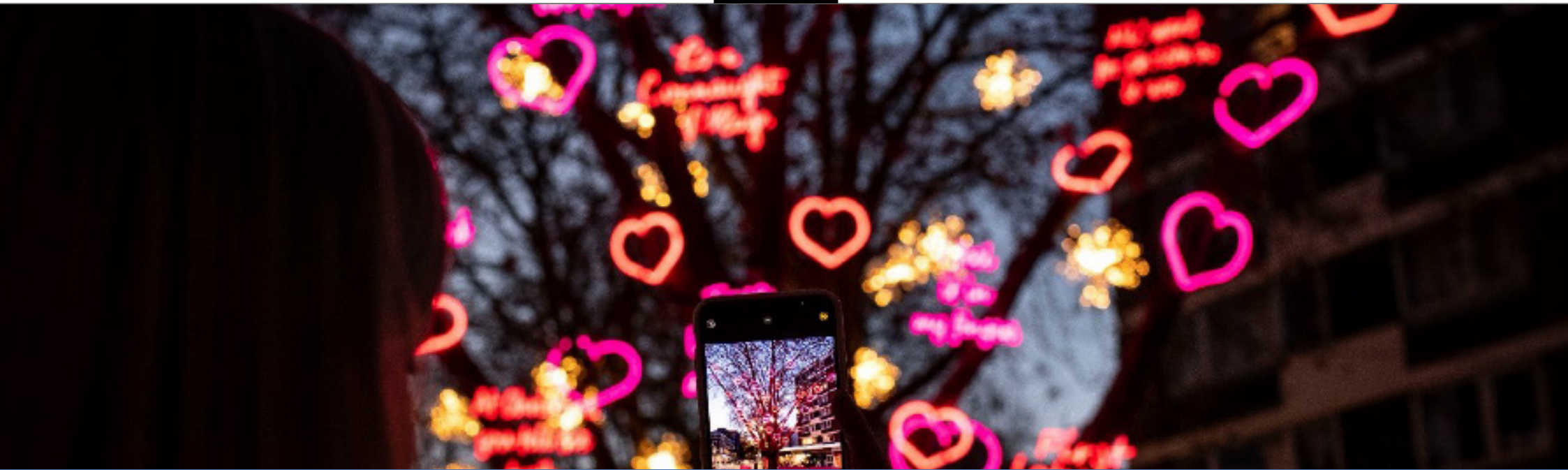
OUTCOME

The group has held successful meetings with politicians, policymakers, and ambassadors about deforestation in both Brazil and Indonesia (the Commissioners co-chairs the IPDD's Indonesia workstream). The IPDD encouraged enhanced ambition in the NDCs in advance of the COP26 meeting, as well as support of domestic policy which implements this.

Commissioners among leading financial institutions to commit to actively tackle deforestation

Ending deforestation and implementing natural climate solutions could provide a third of the solution to achieving the Paris Agreement climate target, help halt and reverse biodiversity loss, and support human rights and food security. With most deforestation driven by unsustainable production practices for palm oil, soy, cattle products and pulp and paper, resulting in more carbon emissions annually than the EU, action on these commodities is particularly urgent, which is the focus of the commitment made today. That is why more than 30 leading financial institutions, representing over \$8.7tn in assets under management, including the Commissioners, announced at COP26 a commitment to tackle agricultural commodity-driven deforestation as part of broader efforts to drive the global shift towards sustainable production and nature-based solutions. The commitment – to use best efforts to eliminate agricultural commodity-driven tropical deforestation from portfolios by 2025 – was a response from the finance sector to the COP26 Call for Climate Action Announcements from Private Finance Institutions, issued by the COP26 Presidency, Mark Carney's COP26 Private Finance Hub and the High Level Climate Action Champions.





RESPECT FOR PEOPLE

“We are committed to addressing the unjust structures of society. The seismic changes coming in the next decade – digital and AI transformation, net zero transition, among other transformative events – must not leave anyone behind. Especially those who are already among the less fortunate.”

Respect for People

- 41 Human rights
- 42 Our communities
- 43 Just transition
- 44 Diversity & Inclusion and artificial intelligence





HUMAN RIGHTS

In 2021 the Commissioners worked with colleagues at the other NIBs to develop a Human Rights Policy, which was published in May 2021 (<https://www.churchofengland.org/media-and-news/news-releases/church-englands-ethical-investment-advisory-group-issues-new-guidance>).

It has been used to support the NIBs' work on modern slavery, and our work on extractives and First Nations and indigenous peoples, as well as work on Big Tech companies with respect to human rights.

Modern slavery

The Commissioners play an active role within the "Find It, Fix It, Prevent It" initiative, which brings the investment community together with academics and NGOs to address modern slavery in supply chains and to improve the lives of those affected and work to prevent reoccurrence. A core part of the project is direct investor engagement with companies. This moves beyond existing engagement to focus on promoting more effective action.

OUTCOME 1

As part of this programme, our engagement with a large cruise company resulted in the company's publication in May 2021 of a modern slavery statement and code of conduct and ethics and business partner code of conduct and ethics, which apply worldwide. We have been discussing the implementation of these with the company on an ongoing basis.

OUTCOME 2

The Commissioners' farming tenants use seasonal labour for vegetable harvesting and cultivation, as well as factory work, providing facilities such as purpose-built hostels and subsidised accommodation. While the Commissioners aren't directly involved in this side of the tenants' business, we work with The Clewer Initiative to combat modern slavery. In mid-2021, the Commissioners hosted a webinar about modern slavery for its rural tenants whose businesses used seasonal labour.

First Nations and Indigenous Peoples

We actively engaged with mining companies on First Nations and Indigenous peoples. Following the destruction of Juukan Gorge in Australia by Rio Tinto, the Commissioners and 63 other investors escalated their engagement with mining companies on Indigenous rights. This investor coalition engaged with 78 mining companies and reviewed how standards of best practice are applied and monitored. A letter was sent to each of these companies in late 2020 and the responses were reviewed in 2021.

OUTCOME

In December 2021, a report was published, entitled "Company Engagement with First Nations People" (<https://acsi.org.au/wp-content/uploads/2021/12/Company-Engagement-with-First-Nations-People.Dec21final.pdf>), encouraging companies to build strong relationships with First Nations peoples.

Big Tech

OUTCOME

The Commissioners and Church of England Pensions Board jointly worked with the Swedish Council on Ethics on the publication of clear investor expectations on human rights and Big Tech companies in 2020 and carried out engagement based on these in 2021. Given the integral part tech companies play in the fabric of our daily lives, the engagement is ongoing. Specifically, we engaged with a Big Tech company to give direct feedback on its human rights policy to its human rights director, which contributed to the publication of the company's human rights policy in March 2021.





OUR COMMUNITIES

Partnering with our communities

We view stewardship of our communities as central to our role as responsible landlords. That means managing and operating assets through the lens of fostering better communities and ensuring the quality of life of the people in those communities. The Covid-19 pandemic created severe challenges in 2021, whether financially or in terms of physical and emotional wellbeing, for many people across the UK. Our communities were no exception. The Commissioners took a number of steps to safeguard the health and wellbeing of our people, members, customers and all those we work with.

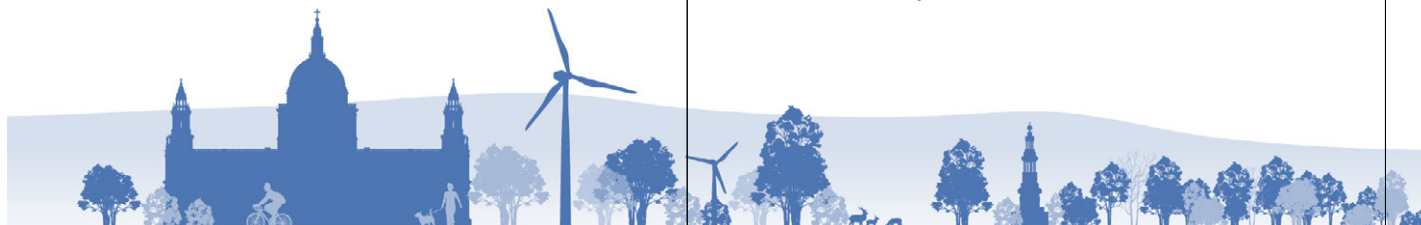
Partnering with tenants in the Hyde Park Estate

Some of the measures and activities we undertook during periods of restriction included:

- extensive tenant liaison throughout the pandemic, including regular updates on governmental assistance available to businesses; and
- offering more than £720,000 of rent-free/concession periods to commercial tenants during enforced closures, in fiscal year 2020/21.

Once the economy started to re-open, we:

- commissioned Hyde Park Estate branded social distancing signage for tenants to display in windows, per government guidelines;
- worked with local stakeholders to understand their preferences for temporary road/parking changes and increased pedestrian areas;
- worked closely with West End Security Group regarding tenants' strategies for re-opening;
- since March 2020, provided free parking to NHS staff on the Hyde Park Estate who work at the nearby St Mary's Hospital in Paddington; and
- hosted several community events, including:
 - an event to honour a former tenant, Halima Nalecz, with a Westminster Green Plaque and art gallery inspired by and including examples of her work;
 - Wild – an art installation in a vacant shop unit designed by the Hyde Park Estate gardeners;
 - collaboration with local school regarding mental health awareness. Competition run and winning entries framed and displayed in a vacant unit; and
 - a Christmas shopping event, which marked the switching on of the Christmas lights. An event was held to promote retail tenants in Connaught Village and engage with the local community.





JUST TRANSITION

The idea that ensuring that no one is left behind, economically and in other ways, in the shift to a low-carbon economy — that is, ensuring a just transition — is a vital part of how the world must approach the climate transition. The Commissioners are playing their part in public policy terms as founding members of the Financing a Just Transition Alliance (FJTA), from its inception in November 2020. The objective of FJTA is to translate the growing commitment to a just transition across the financial sector into real-world impact. The FJTA has been working to identify concrete steps that the financial sector can take to scale up climate action which also delivers positive social impact, both in terms of maximising the social benefits of net zero and making sure no one is left behind. The Commissioners contributed to a report of the work and findings of the FJTA, called “Financing a Just Transition Alliance Report – Just Zero”, which was supported by the Grantham Institute on Climate Change and the Environment and launched at COP26.

It details the work of more than 40 financial institutions and other stakeholders that form the UK’s Financing a Just Transition Alliance in translating the need for a just transition into operational steps and tangible outcomes.

Engagements and outputs

Since becoming founding members of the FJTA in 2020, the Commissioners have been active in identifying concrete steps that the financial sector can take to ensure that no one is left behind as part of the transition to a low-carbon economy. To do this, we engage with high-carbon-emitting utilities companies in which we invest, ensuring that workers and communities are not left behind and are appropriately supported in the low-carbon transition.

Each company was actively considering – and continues to consider – how to address and achieve a just transition. However, their approaches varied greatly depending on factors such as location, relationship with unions, governance, company size, status as local or international company, and ability to transfer and reskill employees within their own operations. For example, one company that the Commissioners is engaging with is training the operators of coal-fired facilities in a developing country to work in the fishing industry.

The engagement focused on the need for transparent reporting on the approach the companies are taking and the actions taken to date. The Commissioners encourage companies to increase disclosure in these areas, both to demonstrate active management of the issue, and to inform best practice. Due to its potential for assisting or preventing decarbonisation, the utilities sector was selected for engagement.

The key aims of the engagement were to understand how the just transition will affect these companies, whether individuals had been identified who might be affected by the transition, and what steps the companies were taking to create a policy or strategy for a just transition.



For more info, please read our press release
<https://www.churchofengland.org/about/leadership-and-governance/church-commissioners-england/how-we-invest/responsible-investment-4>





DIVERSITY & INCLUSION AND ARTIFICIAL INTELLIGENCE

Diversity & Inclusion (D&I)

In 2020 the Commissioners established a D&I Working Group which included members across the Investment Division to explore how we could develop our D&I work. This work continued into 2021. This involved discussions with asset owner peers, data providers, most of our investment managers, our internal Investment teams, and D&I-focused industry bodies.

As previously noted, this work culminated in an updated RI Manager Framework which was approved in July 2021. This updated Framework includes an assessment of our managers' D&I practices. Managers that do not recognise the importance of D&I, and do not have diverse investment teams (or are not taking steps to change this) are not eligible for investment.

For the 2021 proxy season, we incorporated the Parker Review recommendations into our voting policy. The Commissioners, along with the CIG, are one of the first UK institutional investors to include ethnic minority representation as part of our proxy voting approach.

In addition, the Commissioners is an active participant in the 30% Club, a global campaign led by chairs and CEOs taking action to increase gender diversity at board and executive committee levels. Female representation at board level has progressed across the FTSE 350 since the group started in 2010, and reached 38% in 2021.

OUTCOME

In the fourth quarter of 2021 we started working on a framework to identify companies that do not promote D&I. The framework's methodology includes considerations on D&I representation at board and senior management level, as well as training, developmental opportunities, employee engagement mentoring programmes and policy commitments to promote D&I.

Artificial intelligence (AI)

The Commissioners have been working to understand AI and the complex ethical debates associated with its adoption across industries, as part of our key thematic priorities under Respect for People. We will explore the ethical issues that affect companies due to AI. We hope to establish a comprehensive understanding of the nuances relating to AI adoption, offer clarity to the debate, define expectations for appropriate principles of good governance, and highlight the relevance of the Commissioners' stewardship activities early in the maturation of these topics. To help us make sure this is as robust as it can be, we have retained a specialist consultancy to scope material themes for our portfolio. We plan to begin an engagement initiative in 2022 once we complete the scoping process.





HOW WE RUN OUR ACTIVITIES

“The NCIs’ values are at the heart of everything that the Commissioners do: excellence, integrity, and respect”.

How we run our activities

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EMPLOYEES

The NCIs' values are at the heart of everything that the Commissioners do: excellence, integrity, and respect. Along with our fellow NCIs, we are an accredited living wage employer and ensure that all our staff have a living wage appropriate to where they live. We are also a Disability Confident employer. We report in full on our organisation and people in our Annual Report, but here we want to comment on a key theme: belonging and inclusion. That's because it is at the heart of being a responsible, ethical employer.

In common with all the NCIs, we believe that everyone should feel that they belong and are valued for who they are and what they contribute. To this end, in October 2019, we launched a belonging and inclusion strategy and action plan, following extensive consultation across the NCIs. The plan focuses on four areas: leading and signalling, generous behaviours, mentoring and learning, and celebrating and storytelling.

Various D&I initiatives include:

- Induction training upon joining – the belonging and inclusion core module in the induction for all employees has been updated – so our training/awareness of these issues is at the fore on joining.
- Mentoring – we launched a second mentoring scheme which is a reciprocal mentoring/co-mentoring scheme. This means that while the development goals of the mentee may still be part of the partnership, there will also be an emphasis on creating and supporting relationships across gender, ethnic background, disability status, identity, and generational divides and more broadly between people who bring different skills, experiences, and perspectives.

- Inclusion and Belonging workshops involving 140 staff across the NCIs took place last year to discuss our values of excellence, integrity and respect, to build shared understanding of the behaviours that make these values a reality.
- Manager training – we ran “Working Without Walls” workshops for all line managers. These workshops, which provided guidance on managing virtual/hybrid teams, incorporated content on inclusion and wellbeing.
- Senior leaders – we offered the “Difference” course to senior leaders which aims to support learning and behaviours around disagreeing well and ensuring that the organisation is an inclusive place for different perspectives.
- Employee Networks – we continue to support a number of employee groups such as the LGBT+ Staff Network and the UK ME Network and use our intranet to raise awareness of issues/foster discussion about Belonging and Inclusion.

In 2021, we also participated in the #10,000 Black Interns scheme. In July and August 2021, we were assisted by an intern, who worked on a project exploring the social performance of our listed equity portfolio relative to the MSCI global equity benchmark.

Performance management rewards

The Commissioners is a large and sophisticated institutional asset owner that invests in a broad range of asset classes. It seeks to attract and retain high-calibre investment professionals.

Accordingly, our reward offer is designed to reflect the market for investment specialists and incorporates long-term incentives which encourage consistent outperformance of the Commissioners' target investment returns over five years and also include non-financial metrics.

The level of pay and the value of incentive awards are overseen by a Remuneration Committee, made up of trustees from the Assets Committee supported by independent benchmarking data. The scheme is reviewed for consistency with the executive remuneration policy adopted by the NIBs.





SUPPLIERS

We have long-lasting relationships with MSCI and ISS to support our ESG screening efforts. We rely on MSCI to help identify companies that breach our ethical policies. MSCI's research is well aligned and enables us to implement the requirements of our ethical policies. In 2019 we also appointed Sustainalytics to provide additional screening research on indiscriminatory weapons. We felt this partner offers best practice research on this concerning issue. The Commissioners' relationship with ISS is managed by the CIG. We rely on ISS for our proxy voting and corporate research service due to its wide research coverage as well as agility in implementing our bespoke voting policy, which is reviewed on annual basis. The Commissioners, along with the CIG, review the services provided by MSCI and ISS on a regular basis. In addition to the provision of data and recommendations, we also value their ESG insights and rely on them to help flag future themes.

Periodically the Commissioners review the performance of our service providers. In some cases we reissue an RFP to ensure we have the right service providers to best serve our beneficiaries' needs. Sometimes this process results in a change of service provider.

In 2020, the Commissioners appointed a Vendor and Contracts Manager for the Investment Division. We then developed a Vendor Governance Framework to conduct due diligence across our service providers, which was implemented in 2021 and will be reviewed annually. This framework includes consideration of ESG and diversity for all suppliers. At the same time, we are compliant with the NCIs' Procurement Policy, which requires that all suppliers demonstrate policies and compliance on health and safety, modern slavery, sustainable procurement, and equal opportunities.

This Vendor Governance Framework establishes that when completing initial and ongoing due diligence at service providers we request the completion of a corporate social responsibility (CSR) questionnaire requesting information from them, seeking to establish:

- (1) Whether they have a CSR or other environmental/ social policy in place, and whether this covers their supply chain. We also ask how this is embedded within their organisation (e.g. does CSR form part of their employees' objectives, are staff trained appropriately). We confirm with all suppliers that they are either living wage Accredited or pay rates that comply with living wage requirements. This includes asking if they have zero hour contracts in place and, if so, the rationale for having them.
- (2) If they have, with regard to climate change and sustainability, implemented processes to identify the companies/businesses exposed to the main sustainability risks, impacts and opportunities, for their specific business, and whether these are managed or mitigated. We ask how these aspects are embedded into the organisation and monitored, and whether this extends to their suppliers. We also ask whether they have a firm-wide strategy and target for reducing carbon emissions (e.g. net zero ambition) and if they are involved in any sustainability/climate change initiatives or groups. We also ask if they take a public position in favour of policy that supports the transition to a low-carbon/sustainable economy, as well as what other sustainability factors they measure and monitor (e.g. biodiversity and waste).

- (3) Whether they report on climate change and sustainability, and, if so, whether this is in line with the TCFD, and/or whether they report on CSR and the environmental/social characteristics of their business in an annual CSR report.
- (4) Whether they seek external assurance of their practice of CSR (e.g. ISO 26000 certification) and whether their business is certified to, or working towards, any recognised environmental standards (e.g. ISO 14001).
- (5) The Commissioners are members of Real Estate Balance, an industry body formed to address gender imbalance at senior levels in real estate businesses. The Commissioners have built on the work of this organisation and ask all our suppliers to outline how D&I is embedded within their businesses.
- (6) In the context of adherence with anti-slavery and human trafficking legislation, we ask whether vendors have a modern slavery statement and policy in place and if they investigate their labour practices and those of their direct suppliers on an ongoing basis to ensure there is no evidence of slavery or forced labour in their organisation, direct suppliers or sub-contractors. We also ask them to confirm they have in place all necessary processes, procedures, investigations, and compliance systems to support this.





SUPPLIERS CONTINUED

The Commissioners have more than 500 suppliers in its supply chain. It regularly refreshes the due diligence of its suppliers as part of tenders/re-tenders or contract renewals. If responses demonstrate that the supplier does not have a sufficiently robust ESG framework for the company's size/complexity, or if it does not align with our values, it will be escalated to the Responsible Investment team to address any concerns. In these cases we might work with the supplier to further develop its framework.

Our expectations are informed by the size of the organisation, including whether it is a small or sole trader business. We have received positive feedback from some of these suppliers. A number of them addressed issues for the first time that were raised in the questionnaire. One supplier initiated an application for Disability Confident status following the completion of our questionnaire.

In addition to requesting that suppliers complete the new CSR questionnaire, we are looking to formalise annual reporting with regard to CSR from our critical and important suppliers on contract renewal. Implementation commenced in 2022 and will be built out across the supplier base when resourcing permits. Commissioners' staff are prohibited from receiving gifts or hospitality from potential suppliers where there is a tender process underway as laid out in the NCI Compliance Regulation Manual.

"In addition to requesting suppliers complete the new CSR questionnaire, we are looking to formalise annual reporting with regard to CSR from our critical and important suppliers on contract renewal."





GOVERNANCE STRUCTURE

The Commissioners is incorporated and constituted under the Church Commissioners Measure 1947. We are a registered charity in England and Wales, and are one of seven NCIs. We are one of three NIBs of the Church of England, the other two being the Church of England Pensions Board, which manages retirement housing and pensions accrued post-1998, and the CBF Church of England Funds, which pool the investment assets of dioceses, cathedrals, and parish churches.

The Commissioners is also a charitable endowment. Our key role is to steward and manage the Church's endowment portfolio to provide sustainable financial support in perpetuity to support the mission and ministry of the Church of England. The Commissioners is accountable to Parliament, General Synod, and, as a registered charity, the Charity Commission.

There are 33 Church Commissioners, six of whom are state office holders and serve on the Board of Governors on an ex officio basis. The remaining 27 Commissioners have trustee responsibility for meeting our charitable obligations.

When considering the makeup and membership of our governance boards, we seek to have diverse representation. This ensures our boards have strong relevant professional expertise, including investment and real estate experience, combined with experience from other areas – in particular from Church and community voices. These board members are bishops, priests, and active lay members of the Church community.

The Board of Governors, its Committees, and responsibilities

The 27 Commissioners with trustee responsibility comprise the Board of Governors, which oversees the Commissioners' activities. The members of the Board are registered as charity trustees with the Charity Commission. The work of the Commissioners is overseen by four Committees: Assets; Audit & Risk; Bishoprics & Cathedrals; and Mission, Pastoral & Church Property, which, in turn, report into the Board. The Board and all the Committees are supported by an executive team led by the Chief Executive and Secretary, Gareth Mostyn.

Assets Committee

On behalf of the Board, the Assets Committee is responsible for governance of the endowment fund, operating within general rules set by the Board. At the heart of these rules is the principle that the Assets Committee, and the Responsible Investment team that reports to it, will manage the Church's assets in complete accordance with our ethical investment policies, which themselves are approved by the Board. The Assets Committee reports quarterly to the Board. The Assets Committee provides oversight of our stewardship activities. In addition, ESG issues are incorporated into our risk register, which is reviewed at executive level and by trustees at every Assets Committee meeting.

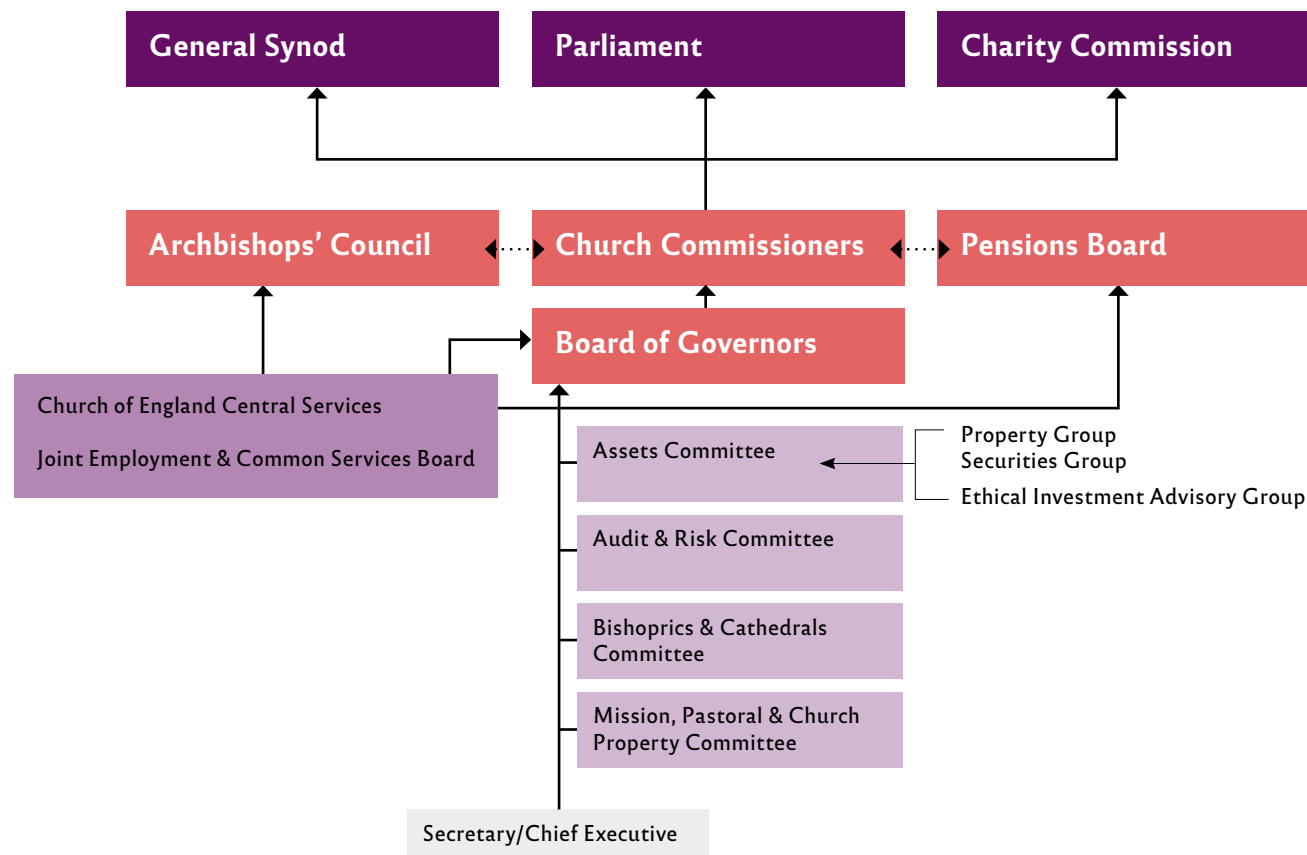
Whilst the Assets Committee has direct and fiduciary responsibility for the management of the assets, the Audit & Risk Committee has depth of industry expertise in its membership and always has a member in attendance at Assets Committee meetings. The attendee's role is partly to observe and comment on proceedings; however, they may also comment and contribute, at the Chair's invitation, on risk-related matters. The Audit & Risk Committee has direct accountability to the Board of Governors and reviews key investment matters on a regular basis at its own meetings. It also receives the quarterly risk and controls reporting, also provided to Assets Committee, that sets out the position of the fund through the preceding quarter, relative to the investment guidelines and limits referenced above. Finally, in line with established practice, the Committee and its Chair are a key escalation point for risk matters and breaches and are hence, through all the above arrangements, fully informed and empowered to raise issues to the Chair of the Assets Committee and to the Chair of the Board of Governors.





GOVERNANCE STRUCTURE CONTINUED

Church Commissioners: governance structure



Managing risk

The Board of Governors is responsible for risk and reviews its risk management arrangements at least annually. As noted above, the Board is supported by the Audit & Risk Committee, which regularly reviews the content of the strategic and operational risk registers and seeks assurance over the adequacy of arrangements in place to manage the risks. In 2021, the Commissioners' Audit & Risk Committee also considered wider Church of England risks and their implications for the Commissioners, with discussion focused on culture, socioeconomic factors impacting long-term investment return and distributions. Investment risks and operational risks, related to investment operations, are subject to regular review by the Assets Committee.

Individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility. The Director of Risk & Assurance meets regularly with department heads to review their risks, mitigations, and current actions. Risks are evaluated and prioritised using an agreed scoring methodology.

The risk management process is facilitated and monitored by the Internal Audit Department, which are responsible for the Risk Management Policy and Procedures. The management of key risks is subject to independent review and assurance through the internal audit process, the reports from which go to the Audit & Risk Committee.



GOVERNANCE STRUCTURE CONTINUED

Managing risk continued

In 2020, an independent review of our risk management arrangements was undertaken, and a roadmap developed to implement recommendations. Subsequently, the Risk & Assurance team has enhanced risk reporting using a greater level of visualisation. An independent review of risk management is scheduled every three years within the Internal Audit Plan.

All staff are required to comply the NCI Compliance Regulations Manual which covers gifts, hospitality, conflicts of interest, insider dealing and staff dealing rules, investment advice, confidentiality, and outside interests.

Internal audit

On an annual basis a risk-based Internal Audit Plan is reviewed and formally approved by the Commissioners' Audit & Risk Committee. The Internal Audit Plan is developed through discussions with management to understand particular aspects of change, by considering external and internal factors that may increase risk and through the development of assurance maps. An Internal Audit Progress Report is presented at each Audit & Risk Committee and finalised audits discussed.

In the summer of 2021, an External Quality Assessment of the NCIs' Risk and Assurance function was undertaken in accordance with the Institute of Internal Auditors (IIA), recommended best practice. The function was found to be compliant with IIA standards and providing a good level of assurance. During 2021, a detailed review of the adequacy and operational effectiveness of Tactical Asset Allocation processes was undertaken by KPMG on behalf of Internal Audit. Internal control processes were found to be robust with a small number of low-level findings.

Managing trustees' conflicts of interest

Because of the constitutional arrangements that govern how the Commissioners are organised some of our trustees are drawn from key stakeholder groups, such as bishops and cathedrals, and may as a result be beneficiaries of the charitable activities of the Commissioners. This conflict of interest is mitigated by fact that the trustees are required to look out for the best interests of all the beneficiaries regardless of which part of the church elected or appointed them.

The trustees of the Church Commissioners represent the interests of beneficiaries which have a common interest, arising from their shared participation in the activities of the Church of England. It follows that the typical conflicts that may occur at other investors, where the interests of beneficiaries may be diverse, are less likely to affect the Church Commissioners.

To manage these conflicts, we have a Code of Conduct for trustees which includes a Conflicts of Interest Policy consistent with Charity Commission guidance, and the Seven Principles of Public Life set out by the Committee on Standards in Public Life. All trustees receive a copy of the Code when they are appointed and must declare any conflicts of interest. We periodically review our Code of Conduct, a copy of which is available upon request. The next review is scheduled to take place in 2022.

A key principle of the Code is that trustees' overriding consideration must be the best interests of the Church Commissioners and the beneficiaries of our charitable activities. Each trustee must act personally so as to promote the objectives of the charity and not as the representative of any group or organisation; this applies regardless of how that trustee was nominated, elected or selected. The Code also sets out how conflicts of interest should be handled.

Trustees are required to register any personal interest which might influence their judgement, or which could be reasonably perceived to do so.

This Register is open to inspection on request by the Commissioners, members of the UK Parliament, government officials and General Synod members. It is also displayed at our Annual General Meeting.

Effective stewardship is at the heart of the Commissioners' activities, taking into account the FRC's definition of stewardship. We recognise that a robust and effective framework for governance is the starting point. Unlike many charitable bodies, the Commissioners' constitutional framework is statutory, drawn from legislation such as the Commissioners Measure 1947. During the reporting year, we have successfully made legislative changes to our constitutional arrangements with a focus on the membership of the Board and our Assets Committee. In particular, we have removed provisions which permitted unlimited tenure of Board members, thereby providing for broader and more frequent turnover of our Board and Committees, and we have increased the permitted size of the membership of our Assets Committee. We have also challenged – and removed – some of the disqualifications on our membership, for example which precluded salaried employees in Church of England dioceses from serving as trustees, and which were rooted in an outdated perspective on conflicts of interest. These changes will enable the Commissioners to hear a more diverse range of suitably qualified voices and perspectives from stakeholders and beneficiaries. They will also help the Commissioners to mitigate even further the impact of any conflicts when they do arise.



THE CHURCH COMMISSIONERS AND BOARD OF GOVERNORS 2021

Ex officio

Most Revd and Rt Hon Justin Welby, Archbishop of Canterbury (Chair)

Most Revd and Rt Hon Stephen Cottrell, Archbishop of York

Appointed by the Crown

Alan Smith, First Church Estates Commissioner (from 1 October 2021)

Loretta Minghella, First Church Estates Commissioner (to 30 September 2021)

Andrew Selous MP, Second Church Estates Commissioner

Appointed by the Archbishop of Canterbury

Revd Canon Dr Flora Winfield, Third Church Estates Commissioner (from 1 February 2022)

Dr Eve Poole, Third Church Estates Commissioner (to 15 October 2021)

Elected by the House of Bishops

David Walker, Bishop of Manchester (Deputy Chair)

Rt Revd Viv Faull, Bishop of Bristol

Rt Revd David Urquhart, Bishop of Birmingham

Rt Revd Graham Usher, Bishop of Norwich

Elected by the House of Clergy

Revd Christopher Smith

Revd Anne Stevens

Revd Steven Trott

Elected by the Deans

Very Revd Mark Bonney, Dean of Ely

Very Revd Stephen Lake, Dean of Gloucester

Nominated by the Crown or the Archbishops

Poppy Allonby

Suzanne Avery

Canon Peter Bruinvels

Morag Ellis QC

Jay Greene

Duncan Owen

Elizabeth (Betty) Renshaw MBE

Busola Sodeinde

Helen Steers

Nigel Timmins

Jacob Vince

Mark Woolley





REFERENCE TABLE

Principles	Sections
Principle 1 Purpose, strategy and culture: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	<ul style="list-style-type: none"> ▪ Year in review ▪ Who we are and what we believe ▪ First Church Estates Commissioner letter ▪ Chief Investment Officer letter ▪ Introduction to our approach ▪ Responsible Investment Policy
Principle 2 Governance, resources and incentives: Signatories' governance, resources, and incentives support stewardship.	<ul style="list-style-type: none"> ▪ Introduction to our approach ▪ Employees ▪ Governance structure
Principle 3 Conflicts of interest: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	<ul style="list-style-type: none"> ▪ Employees ▪ Governance structure
Principle 4 Promoting well-functioning markets: Signatories identify and respond to market-wide and systemic risks to promote a well functioning financial system.	<ul style="list-style-type: none"> ▪ Responsible Investment Policy ▪ Controversies process ▪ Systemic risk ▪ Climate ▪ Environment and natural capital ▪ Human rights ▪ Just transition ▪ Diversity & Inclusion and Artificial Intelligence
Principle 5 Review and assurance: Signatories review their policies, assure their processes, and assess the effectiveness of their activities.	<ul style="list-style-type: none"> ▪ Who we are and what we believe ▪ Introduction to our approach ▪ Responsible Investment Policy ▪ Governance structure





REFERENCE TABLE CONTINUED

Principles	Sections
Principle 6 Client and beneficiary needs: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	<ul style="list-style-type: none"> Who we are and what we believe Responsible Investment Policy Governance structure
Principle 7 Stewardship, investment and ESG integration: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	<ul style="list-style-type: none"> Introduction to our approach letter Responsible Investment Policy ESG integration Direct engagement with listed equities Controversies process Ethical exclusions Voting Impact investing Climate Environment and natural capital Human rights Our communities Just transition Diversity & Inclusion and Artificial Intelligence
Principle 8 Monitoring managers and service providers: Signatories monitor and hold to account managers and/or service providers.	<ul style="list-style-type: none"> ESG integration Expanding our engagement reach Diversity & Inclusion Suppliers
Principle 9 Engagement: Signatories engage with issuers to maintain or enhance the value of assets.	<ul style="list-style-type: none"> Responsible Investment Policy ESG integration Direct engagement with listed equities Controversies process Ethical exclusions Voting Impact investing Climate Environment and natural capital Human rights Just transition Diversity & Inclusion



REFERENCE TABLE CONTINUED

Principles	Sections
Principle 10 Collaboration: Signatories, where necessary, participate in collaborative engagement to influence issuers.	<ul style="list-style-type: none"> Who we are and what we believe Responsible Investment Policy Direct engagement with listed equities Climate Environment and natural capital Human rights Just transition Diversity & Inclusion
Principle 11 Escalation: Signatories, where necessary, escalate stewardship activities to influence issuers.	<ul style="list-style-type: none"> Responsible Investment Policy ESG integration Direct engagement with listed equities Controversies process Ethical exclusions Voting Impact investing Climate Environment and natural capital Human rights Just transition Diversity & Inclusion
Principle 12 Exercising rights and responsibilities: Signatories actively exercise their rights and responsibilities.	<ul style="list-style-type: none"> Responsible Investment Policy ESG integration Direct engagement with listed equities Ethical exclusions Voting Impact investing Climate Environment and natural capital Human rights Just transition Diversity & Inclusion



ABBREVIATIONS GLOSSARY

Anglican Communion – global Anglican family of Churches.

Net-Zero Asset Owner Alliance (AOA) – the UN-convened Net-Zero Asset Owner Alliance is comprised of asset owner members who are committed to transitioning their investment portfolios to net zero in line with the Paris Agreement.

CIG – Church Investors Group, an organisation representing the charitable and pension funds of denominations, dioceses, religious orders, and Christian-based charities. The Church Commissioners is a member.

D&I – diversity and inclusion.

NCIs – National Church Institutions.

NIBs – National Investing Bodies, consisting of three entities:

- The Church Commissioners for England manage an investment portfolio to support the work and mission of the Church of England across the country, including grants for mission activities, bishops, and cathedrals.
- The CBF Church of England Funds are collective investment schemes managed by CCLA Investment Management Ltd in which nearly 13,000 Church of England parishes, dioceses, schools, and church charitable trusts invest. CCLA is predominantly owned by its church and not-for-profit clients.
- The Church of England Pensions Board is a regulated pension fund which provides retirement services (pensions and housing) for approximately 41,000 members who minister in or work for the Church of England. It also holds some charitable funds for other purposes.

EIAG – The Church of England Ethical Investment Advisory Group, which provides independent ethical investment advice to the Church of England's three National Investing Bodies (NIBs).

Five Marks of Mission – the Five Marks of Mission were developed by the Anglican Consultative Council in 1984. Since then, they have been widely adopted as an understanding of what contemporary mission is about. The Marks — tell, teach, tend, transform, and treasure — were adopted by the General Synod of the Church of England in 1996 and many dioceses and other denominations used them as the basis of action plans and creative mission ideas.

GHG – greenhouse gases.

GP – general partner.

LP – limited partner.

Loss and Damage – a term used in the UN climate negotiations to refer to loss and damage which cannot be addressed by mitigation and adaption, and generally affects the poorest countries.

Manager – fund/investment manager.

i <https://tnfd.global/>.

ii <https://www.bvca.co.uk/Our-Industry/ESG-and-Responsible-Investment/Excellence-in-ESG>.

iii <https://www.pwc.com/us/en/about-us/newsroom/press-releases/pwc-launches-acds-2021.html>.

iv <https://www.gov.uk/government/publications/ethnic-diversity-of-uk-boards-the-parker-review>.

v <https://www.churchofengland.org/media-and-news/press-releases/church-commissioners-named-impactful-leader>.

vi Launched in 1998, the mission of the GHG Protocol is to develop internationally accepted greenhouse gas (GHG) accounting and reporting standards and tools, and to promote their adoption in order to achieve a low-emissions economy worldwide.

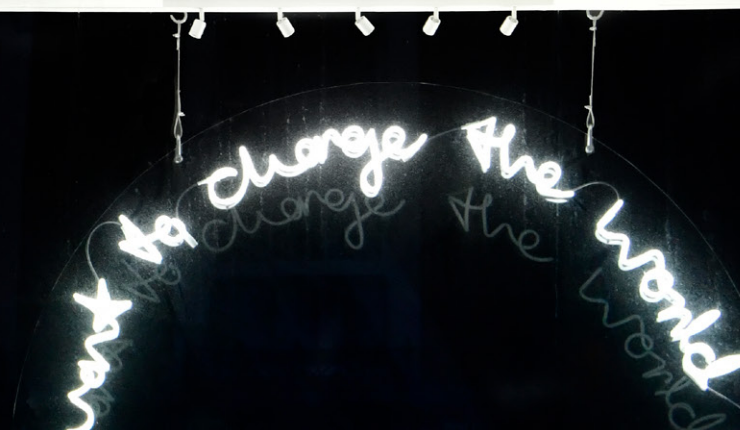
vii First climate policy review from Bayer welcomed by Church Commissioners for England | The Church of England.

viii <https://www.churchofengland.org/media-and-news/press-releases/church-commissioners-among-leading-financial-institutions-commit>.

ix <https://www.churchofengland.org/media-and-news/press-releases/church-commissioners-england-voice-need-just-transition-ahead-cop26>.

DO YOU WANT TO CHANGE THE WORLD WITH ME?

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