How We Invest

We have delivered an average return of 9.9% per year over the last 30 years.

Excellent returns
We look after a diverse portfolio in order to minimise risk and maximise returns. The excellent long-term performance of our fund is the key to long-term sustainable funding for the Church’s ministry.

Effective stewardship
Our focus as a Responsible Investor is built on two pillars: Respect for People and Respect for the Planet. Determined action on climate change underpins our approach to a net-zero portfolio by 2050.

Our long-term returns consistently outperform our target

<table>
<thead>
<tr>
<th>Period</th>
<th>Church Commissioners</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 years (1992-2021)</td>
<td>9.9%</td>
<td></td>
</tr>
<tr>
<td>10 years (2012-2021)</td>
<td>7.6%</td>
<td>7.2%</td>
</tr>
<tr>
<td>1 year (2021)</td>
<td>10.7%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

Note: Target return was RPI+5% per annum to end 2018, CPIH+4% thereafter.

We manage a £10.1bn endowment fund in an ethical and responsible way to support the mission of the Church of England.
Effective stewardship

We are an active investor committed to being at the forefront of responsible investment (RI) globally. This means that environmental, social and governance (ESG) issues are an intrinsic part of how we invest, for both ethical and financial reasons.

Our approach to investments aligns with the Five Marks of Mission and is shaped by ethical policies created following advice from the Church of England’s Ethical Investment Advisory Group (EIAG).

You can find more details in our Stewardship Report.

Excellent returns

Our fund:

• is well diversified to manage risk
• invests in public and private markets
• invests across assets like property, forestry, farmland and infrastructure
• holds a cash balance to ensure we can meet our distributions to support the Church

Strong performance: our successful active management has achieved an average return of 9.9% per year over the past 30 years.

Excellent track record: we have repeatedly exceeded our target return.

The two pillars of our RI policy highlight our Christian values and beliefs:

RESPECT FOR THE PLANET

RESPECT FOR PEOPLE

These environmental and social pillars are underpinned by our focus on strong governance practices at companies in which we invest and in our own governance structures.

We are:

• signatories to the UN-backed Principles for Responsible Investments and the Paris Agreement.
• included in the Principles for Responsible Investment (PRI) Leaders’ Group in 2019 and 2020.
• winners of the IPE’s (Investment & Pensions Europe) Award for Best in Impact Investing 2020 and 2021.

More details on our fund and activities can be found in our annual report.

COMMISSIONERS’ ASSET ALLOCATION
(as at 31 December 2021)

1 Public Equities 34.6%
2 Defensive Equities 8.1%
3 Absolute Return 8.7%
4 Private Equity 6.6%
5 Venture Capital 5.6%
6 Timberland 5.3%
7 Infrastructure 1.3%
8 Credit Strategies 4.2%
9 Commercial 2.7%
10 Residential 5.0%
11 Rural 5.8%
12 Strategic Land 2.9%
13 Indirect Property 1.1%
14 Cash And Cash-Like Assets* 8.1%

*Includes 0.2% in portfolio hedges
We are committed to a net-zero investment portfolio no later than 2050.

General Synod debate on climate change: we reaffirmed our promise to engage urgently with fossil fuel companies with poor TPI ratings and to divest if necessary.

We will divest from fossil fuel companies that are not aligned with the goals of the Paris Agreement to restrict the global average temperature rise to well below 2°C.

General Synod’s target date for a net-zero carbon emissions Church includes our day-to-day operational activities.

To help achieve our net-zero goal, we are members of the UN-convened Net Zero Asset Owner Alliance, a group of 42 institutional investors, representing $6.6 trillion.

2017:
We co-founded the Transition Pathway Initiative (TPI), a tool for investors to assess companies’ readiness to transition to net zero. TPI includes more than 105 investors globally, representing $26 trillion and forms a core part of our climate strategy.

2018:
We announced divestment from nine fossil fuel companies that did not pass our TPI-based climate change hurdles. Twelve companies improved because of our engagement.

2020:
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2023:
We will divest from fossil fuel companies that are not aligned with the goals of the Paris Agreement to restrict the global average temperature rise to well below 2°C.

2025:
Our carbon reduction target is -25% by 2025, based on a 2019 baseline.

2030:
Our investment portfolio will be net zero no later than 2050. We will achieve this by using our influence as a global investor to effect real change in the economy.

2050:
Our investment portfolio will be net zero no later than 2050. We will achieve this by using our influence as a global investor to effect real change in the economy.
Impact investment and monitoring

We are committed to ensuring that our investments lead to positive outcomes:

- As at the end of 2020, we have more than £1 billion invested in environmental and social solutions.
- We helped establish and will distribute £16 million to the Archbishops’ Council’s impact first portfolio.

Our Impact Investment Framework adheres to the guidelines of the UK’s Impact Management Project.

Read more about the real-world impact of our impact investments in our White Paper.

Active Ownership: ESG, engagement and voting

Environmental, Social and Governance (ESG) integration underpins our investment processes across all asset classes.

- We talk to company executives and board members to influence change to a company’s ESG practices.
- We work together with other like-minded investors, including other Church of England investing bodies (CofE Pensions Board and CCLA) and have a joint voting policy with the Church Investors Group. Information on our voting record is available in the Stewardship Report and in our ‘Engagement, Screening and Voting Reports’.
- We may divest from any company in any sector because of ESG reasons if, after sustained dialogue, they do not respond to our concerns.

Advocacy and collaboration

In 2020, around half of our engagement interventions were part of a collaborative effort. This included collective public policy initiatives on topics such as:
- ensuring fairness in governments’ Covid-19 recovery plans.
- environmental and climate change issues.
- directors’ accountability for the treatment of their employees.

One example of this is our work as part of the PRI Leaders group, which has over 3,000 signatories representing more than $100 trillion assets under management.

Ethical and environmental exclusions

We restrict investments in companies involved in certain sectors. More information on our exclusions is in our Stewardship Report.

We also restrict investment in companies involved in the extraction of thermal coal and production of oil from oil sands and carbon intensive companies who fail to meet our standards on climate change restriction criteria.

Our Exclusions Include

- GAMBLING
- ALCOHOL
- DEFENCE
- CLIMATE CHANGE
- TOBACCO
- SPECIAL EXCLUDED
- PREDATORY LENDING
- CLUSTER MUNITIONS, DEFENCE
- CANNABIS
- FIREARMS
- OTHER

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