GS 2302

The National Investing Bodies

Approach to Climate Change

A report for General Synod, June 2023

THE CHURCH OF ENGLAND

CCLA GOOD INVESTMENT

THE CHURCH OF ENGLAND PENSIONS BOARD

CHURCH COMMISSIONERS FOR ENGLAND

Foreword

The National Investing Bodies (NIBs) since 2015, with advice from the Ethical Investment Advisory Group (EIAG), have played a pivotal role in leading engagement with fossil fuel and other high carbon emitting companies and sectors. We actively use our voices, working with other investors, in line with our fiduciary duties and applicable laws and regulations to each seek alignment, over the short, medium and long term, with the goals of the Paris Climate Agreement.

Our approach led us to build global investor tools such as the Transition Pathway Initiative (TPI) to ensure transparency, accountability and independent academic rigour would be at the heart of our, and the wider investor communities', efforts.

We are proud of the significant responses to our engagement efforts to encourage companies to adopt climate targets and transition plans. As a result of this work, transition plans and targets now exist, where they did not previously. The progress has been shown through improved, and independently assessed, TPI ratings.

We also set the bar of our expectations high for where companies should be in their commitments by July 2023.

We are clear that fossil fuel companies' targets need to be aligned with the Paris Agreement in the short, medium and long term to be credible. This is critical to the integrity of a genuine net zero commitment. Some companies have come close, and indeed it is in no small part down to the efforts of each of the NIBs working collaboratively with other investors through global engagement initiatives such as Climate Action 100+, that they have done so. However, as this report sets out, no fossil fuel company has met the 2023 hurdles.

In addition to the engagement with fossil fuel companies, the NIBs have seen significant progress through engagement with companies in other high carbon emitting sectors, such as utilities, chemicals and car manufacturers, and also have invested in climate solutions.

In line with the NIBs' commitment to Synod in 2018, five years on, we report on progress that has been made and our resulting assessment of the fossil fuel companies.

Our voices have been and will continue to be important as part of the global investor efforts to address climate change.

Alan Smith
First Church Estates Commissioner,
Church Commissioners for England

Clive Mather
Chair,
Church of England Pensions Board

Peter Hugh Smith
CEO,
CCLA on behalf of CBF Funds

Reflections from the Lead Bishop for the Environment

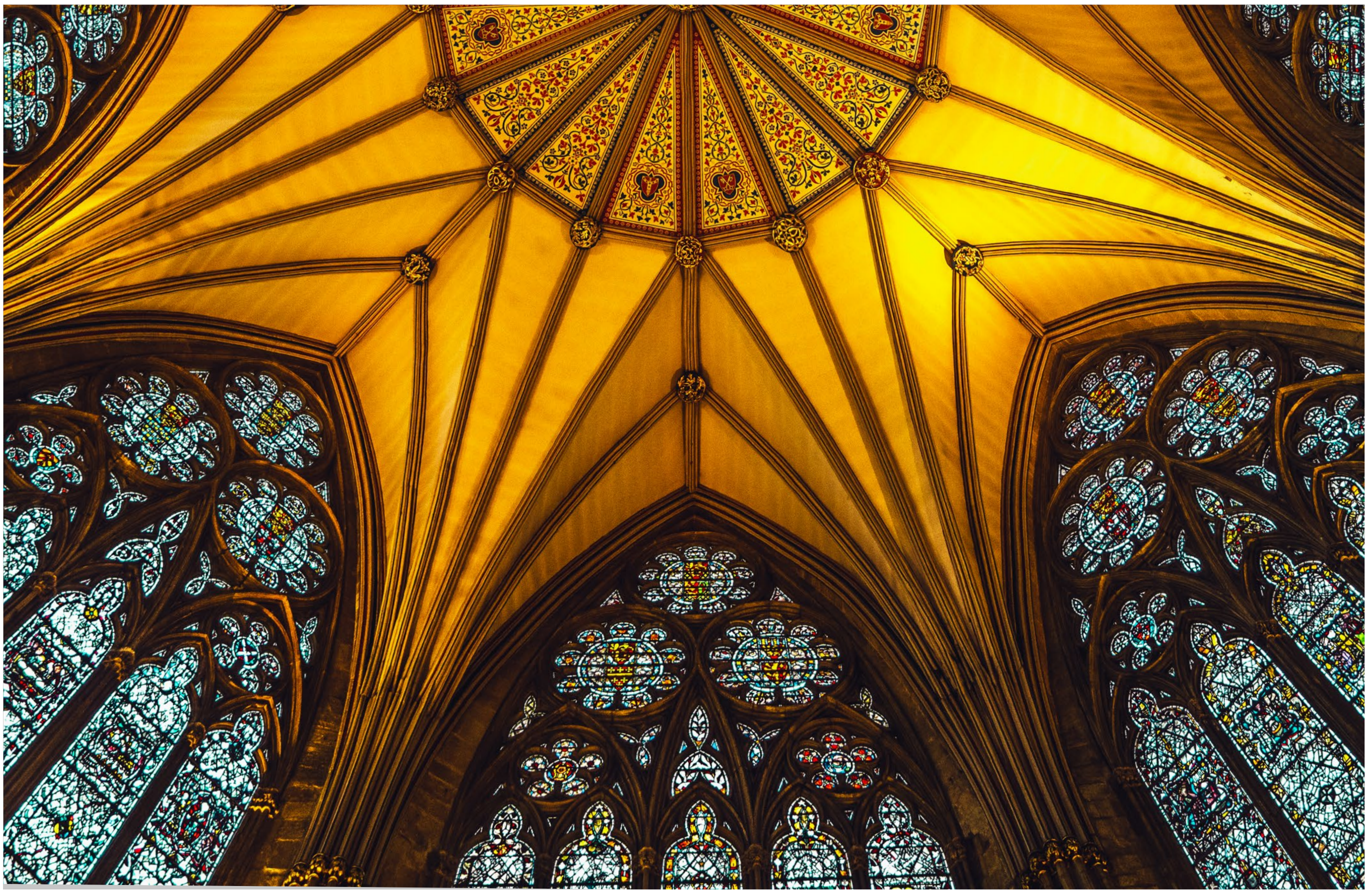
In my time as lead Bishop for the environment I have been supportive of the hard work by the three National Investing Bodies (NIBs) to deliver on the objectives of the 2018 Synod motion. This has enabled them to work towards the Church's fifth Mark of Mission: *To strive to safeguard the integrity of creation, and sustain and renew the life of the earth*.

It is no small undertaking to engage with the fossil fuel and other high carbon emitting companies they have confronted, with some notable successes. These companies are global, high profile, and some of the largest companies in the world. I am proud of my colleagues' efforts and of these accomplishments.

The final escalation point for this work, excluding companies from investment, is the right next step for companies whose approach to fossil fuels no longer aligns with the Church's and the NIBs' values to seek justice for people and all creation.

I have been pleased to see the impact our NIBs' colleagues have beyond the size of their investment funds, and how they work with industry colleagues to showcase their leadership in this critical area of investment. I pray for their continued success in helping the world to achieve the Paris Agreement by using their platform to encourage companies to limit carbon emissions to sustain and renew the life of the earth.

The Right Reverend Graham Usher
Bishop of Norwich, lead Bishop for the environment and Church Commissioner



Introduction and background

The NIBs recognise climate change is an existential crisis. It is likely to affect every person, business and ecosystem on the planet, and in particular the poorest and most disadvantaged, unless dramatic steps are taken to transition to a net zero world. Achieving net zero on a global scale by mid-century is vital if we are to limit global warming to 1.5°C relative to pre-industrial levels[1]. This makes climate change and the transition to global net zero a significant disrupting factor to the global economy, and affects how investors need to act in order to ensure that we meet our fiduciary mandate and manage the funds entrusted to us on behalf of our members and beneficiaries.

The fourth and fifth Marks of Mission[2] are at the heart of our approach and acknowledge that the poorest are least able to adapt to the impact of climate change. The poorest have contributed the least to greenhouse gas emissions and yet will suffer disproportionately from the ecological, social and economic consequences that result from these changes. They are most in need of strategies that secure resilience, economic growth and development. Climate justice calls for urgent global action to ensure equitable access to enriching and sustainable development[3]. This means there are urgent ethical and financial reasons to address climate change.

By following the theologically based advice of the Ethical Investment Advisory Group, the NIBs each committed in 2015[4] to be at the forefront of institutional investors' approach to decarbonisation. The core of this commitment is to address global warming and its damaging effects through assisting, enabling, and making the case for the rapid transition to a low carbon economy. The goal, then, is not primarily to achieve carbon neutral portfolios by blanket exclusions of high carbon emitting companies, but to adopt strategies that will drive the transition in the real economy and help to bring about change.

1.5°C vs 2°C – what's the difference?

The Paris Agreement aims to *"substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees"*. Shortly after COP21 in 2015, when the Paris Agreement was adopted, in scenario analyses and analytic tools to assess companies' activities and countries' policies, alignment with "well-below 2°C" proliferated.

The Intergovernmental Panel on Climate Change (IPCC) in October 2018 demonstrated there would be a significant increase in the risk of harm to people and our planet if global temperatures rose between 1.5°C and 2°C. It also laid out pathways to 1.5°C. The IPCC's report showed that there is a limited carbon budget for keeping the increase in global temperature to 1.5°C.

Following the report and engagement by investors including the NIBs and others, organisations started adopting 1.5°C as the key Paris Aligned pathway. The International Energy Agency (IEA) in 2021 published its 1.5°C-aligned net zero pathway, which subsequently informed global investor tools such as the Transition Pathway Initiative and in turn initiatives such as Climate Action 100+.

The Synod motion pre-dates the IPCC special report. Once the IEA scenario for net zero could be embedded into TPI and CA100+ and in line with our own individual commitments to be net zero aligned funds, we each aligned our engagement expectations to net zero.

Achievements

- Created the Transition Pathway Initiative (TPI), and founded the TPI Global Climate Transition Centre, a well-funded world leading independent academic research centre at the Grantham Research Institute at the London School of Economics.
- Built support for TPI from 131 investors with more than $50 trillion in assets under management (AUM).
- Each committed to net zero emissions portfolios by 2050 and set interim targets.
- Led high profile global engagements with some of the world's largest high emitting companies and sectors leading to targets, transition plans and changes in company lobbying practices.
- Publicly disinvested from 49 companies that failed to meet interim climate hurdles throughout 2020, 2021 and 2022.
- Led engagement with policymakers globally on issues such as deforestation.
- Created and implemented an exclusion of pureplay thermal coal and tar sands companies.
- Led the process to create the first global Net Zero Investment Framework for investors, across asset classes, now being used as part of the Paris Aligned Asset Owners initiative with 57 signatories representing over $3.3 trillion in AUM.
- Took leading roles in global investor initiatives Climate Action 100+, Net Zero Asset Owners Alliance and the Net Zero Engagement Initiative.
- Pioneered the use by institutional investors of shareholder resolutions at oil and gas company AGMs and led the development of a global Net Zero Standard for Oil and Gas companies and diversified mining companies.
- Led the development of the first Responsible Climate Lobbying Standard supported by five global investor networks with more than 3,800 investor members representing in excess of $130 trillion AUM.
- Made significant allocations of capital to low carbon investments.
- Joined the UK and Canadian governments' Powering Past Coal Alliance and participated in the UK Government's Transition Plan Taskforce and the International Energy Agency Advisory Board.
- Established a Global Investor Commission on Mining 2030 focussed on demand for critical minerals for the transition.
- Excluded public equity and debt investments in oil and gas companies that do not have focused targets independently assessed as aligned to net zero.

The NIBs are three separate institutions, under different regulatory regimes and frameworks, whose respective trustee boards ultimately have responsibility for delivering investment returns for their stakeholders. We jointly fund the majority-independent Ethical Investment Advisory Group (EIAG), which provides each of us with timely theologically-based ethical investment advice. Each NIB independently receives and considers the advice in line with its respective fiduciary duty and the interests of the members and beneficiaries each one serves. All three NIBs, separately, reviewed and committed to deliver the 2018 motion.

We each engaged with different companies over the past five years, and jointly assessed the progress made. While we had a common framework of assessment to judge progress or otherwise of companies, we separately determined our disinvestments each year in line with our individual fiduciary responsibilities and applicable laws and regulations. This has been a successful model and we have worked to develop the annual cycles of hurdles and engagement over this five-year period. Our approach to this collaborative engagement is only part of each individual investing body's approach to climate change. Each fund sets out their individual approaches to, for example, asset allocation and green investment opportunities, in their own reporting, in the respective stewardship reports.

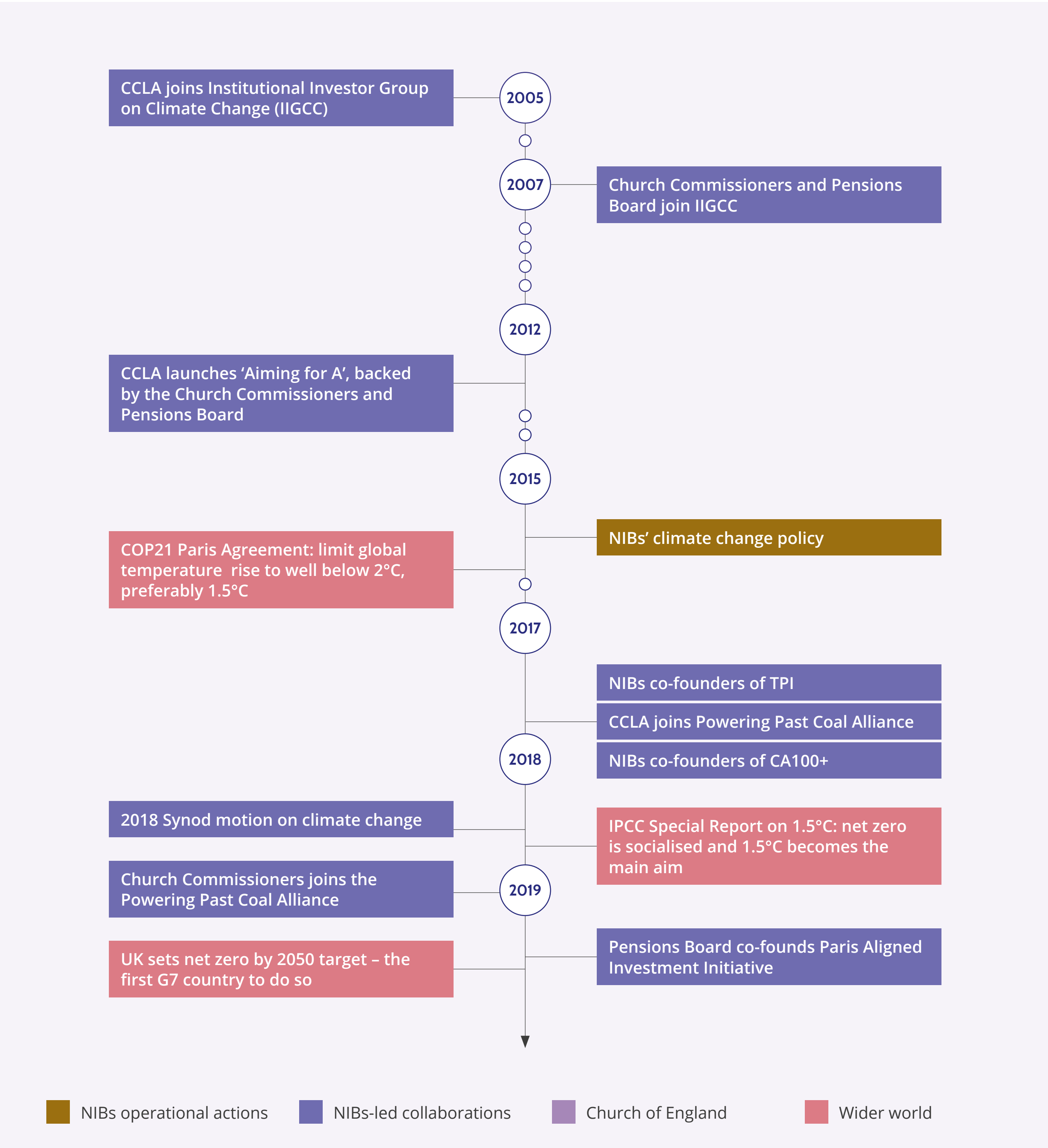
Church Commissioners for England
The Church Commissioners manages the Church of England's £10bn endowment fund. The money it makes from those investments contributes to the cost of mission projects, dioceses in low-income areas, bishops, cathedrals, and pensions. The Church Commissioners also provides administrative support for the Church.

Church of England Pensions Board
The Church of England Pensions Board provides retirement services to those who work or minister for the Church of England. It is a trustee of the funded pension schemes and serves over 42,000 pension scheme members across 700 employers, and responsibly stewards more than £3.2bn of funds under its care. The Board also operates clergy retirement housing on behalf of the Church.

CBF Funds managed by CCLA
The CBF Funds manage almost £3bn on behalf of approximately 14,000 Church of England organisations and play an important part in supporting and resourcing the work of the Church. The Funds are managed by CCLA, which manages over £13.6bn on behalf of churches, charities and local authorities.

The history of our approach

We have engaged with companies on climate change since 2008, well before the Paris Agreement was signed at the end of 2015. The NIBs have engaged with hundreds of companies on the climate transition, and we are committed to continuing to do so. In 2018, General Synod acknowledged our approach to climate change and actions to-date, while encouraging a number of further actions set against specific timelines.



2020

- Pensions Board joins the Powering Past Coal Alliance
- Church Commissioners sets Net Zero by 2050 target for its investment portfolio and joins the Net Zero Asset Owners Alliance
- Church of England sets a net zero by 2030 goal target covering direct Church operations, later for indirect activities
- Pensions Board sets net zero by 2050 target
- Pensions Board launches FTSE TPI Climate Transition Index
- CCLA sells remaining direct holdings in oil and gas extraction companies
- Church Commissioners co-launches Investor Policy Dialogue on Deforestation
- CCLA sets net zero by 2050 target and becomes a founding member of Net Zero Asset Managers' initiative

2021

- International Energy Agency (IEA) net zero 1.5°C scenario, which is incorporated into TPI
- Pensions Board co-launches Net Zero Investment Framwork commits to use it across all asset classes and co-chairs Global Asset Owner Steering Committee
- CCLA sets interim emissions reduction target
- Church Commissioners sets interim emissions reduction target
- NIBs report on progress on 2018 motion to Synod
- TPI adds assessment of alignment with 1.5°C

2022

- Pensions Board co-launches Global Standard on Responsible Climate Lobbying
- Church of England publishes Net Zero Carbon Routemap

2023

- Pensions Board launches and chairs Global Investor Commission on Mining 2030 backed by UN and PRI; Church Commissioners backs Commission
- Pensions Board co-launches global Net Zero Standard on Oil and Gas
- Reporting back to Synod

NIBs operational actions | NIBs-led collaborations | Church of England | Wider world

July 2018 Synod motion on climate change

The motion as amended "That this Synod:

a) welcome the worldwide agreement in Paris in December 2015 to hold *'the increase in the global average temperature to well below 2ºC above pre-industrial levels'* and to pursue *'efforts to limit the temperature increase to 1.5ºC above pre-industrial levels'*;

b) affirm, as it did in 2015, its support for the climate change policy recommended by the EIAG and adopted by the National Investing Bodies ('the NIBs') in 2015;

c) welcome the NIBs' disinvestment from companies focused on thermal coal mining and the production of oil from oil sands;

d) welcome the NIBs' establishment of the Transition Pathway Initiative (TPI) to track whether major companies associated with high carbon emissions are aligning their business plans with the Paris Agreement;

e) urge the NIBs to engage urgently and robustly with companies rated poorly by TPI and, beginning in 2020, to start to disinvest from the ones that are not taking seriously their responsibilities to assist with the transition to a low carbon economy;

f) urge the NIBs to ensure that by 2023 they have disinvested from fossil fuel companies that they have assessed, drawing on TPI data, as not prepared to align with the goal of the Paris Agreement to restrict the global average temperature rise to well below 2ºC;

g) urge the NIBs proactively to seek and scale up investment in renewable energy and low carbon technology; and

h) request the NIBs to report to Synod within three years on progress, with a timetable for rapid continuing action".

This report details how the three NIBs have engaged following the 2018 Synod motion, and further activities we have undertaken to strengthen our own, and the broader investor community's, efforts to tackle climate change.

The NIBs-initiated General Synod Motion built upon our existing engagement-led approach (Clauses E and F). To implement it, the NIBs developed timelines by which investments should be excluded if companies fail to meet the required standards. Clause G, which called for scaling up investments in renewables and low carbon technologies, reinforces the NIBs' preference to invest in businesses that are likely to play a role in a future green economy.

We set interim emissions reduction targets to aim to achieve net zero by 2050 at the latest. This report covers the NIBs' global and diverse investment portfolios, though it's important to note we are committed to work in partnership with the wider Church in targeting net zero by 2030 for the Church's operational emissions.

The NIBs also collaborate with other investors (where appropriate) to implement robust and ambitious voluntary initiatives and standards to continuously drive investor ambition and action.

Climate Action 100+ and TPI are two of the key initiatives that the NIBs have been part of founding and which form the foundation of implementing the 2018 Synod motion. A more comprehensive overview of the different climate-related initiatives in which the NIBs participate is in Appendix II.

How we’ve responded

Climate Action 100+

Climate Action 100+ (CA100+) is an investor-led initiative to encourage the world’s largest corporate emitters to take necessary action on climate change. It is the largest engagement coalition of investors ever assembled, supported by over 700 global investors responsible for a collective $68 trillion per annum, roughly half of all professionally managed investments globally.

CA100+ signatory investors undertake engagements on climate change with 166 companies across 32 global markets. These companies are estimated to be responsible for over 80% of global industrial emissions.

Since the initiative launched in 2017 it has achieved significant progress with the companies it has focused on, as measured against three agreed goals:

- 75% have set a net zero commitment.
- 92% have some level of board oversight of climate risk.
- 91% are aligning with climate disclosure expectations set by the Task Force on Climate related Financial Disclosures (TCFD).
- The NIBs are leaders within CA100+, and have all been lead or co-lead investors, meaning their role is to galvanise action among investors to urge companies to act on climate change.

The Church Commissioners leads and has led on CA100+ engagement with Bayer and ExxonMobil, respectively, and supported multiple engagements with fossil fuel, utilities and chemical companies.

The Pensions Board leads on engagements with Volkswagen, Mercedes Benz, BMW, Renault, Anglo American and National Grid, and is a member of the engagement group with other companies in the mining, utilities, industrials and transportation sectors. The Pensions Board co-led the global engagement initiative through CA100+ with Shell and chaired investor working groups to develop CA100+ Net Zero Standards for the oil and gas and mining sectors, and co-chairs CA100+’s IIGCC Corporate Programme working group that oversees the implementation of CA100+ within Europe.

CCLA has led engagement with Rio Tinto and Unilever and is part of the collaborative groups engaging with companies in the utilities, consumer staples and consumer discretionary, and food and beverage sectors.

CA100+’s work is underpinned by the CA100+ Net Zero Company Benchmark, a tool which assesses companies on a range of indicators aligned to the goals of the initiative. The data for the disclosure indicators and carbon performance indicators in the benchmark is provided by the Transition Pathway Initiative (TPI) Global Climate Transition Centre.

Transition Pathway Initiative

The Transition Pathway Initiative (TPI) was co-founded by the NIBs and launched in 2017. It is based at the Grantham Research Institute on Climate Change and the Environment, located at the London School of Economics. Following its success, TPI has been expanded to become a dedicated academic centre to grow its work as an independent authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low carbon economy. The TPI Centre is a world-leading research centre founded by asset owners to address the systemic risk posed by climate change to investor portfolios. Its analysis is used by investors around the world with investors with over $50 trillion in AUM using it. TPI analysis also directly informs the CA100+ benchmark used by over 700 investors with over $68 trillion in AUM.

Adam Matthews, the Pensions Board's Chief Responsible Investment Officer, continues to chair the initiative and Sofia Bartholdy, Net Zero Lead for the Church Commissioners, represents the Church Commissioners on its board.

The TPI Centre's role is to support investors to:

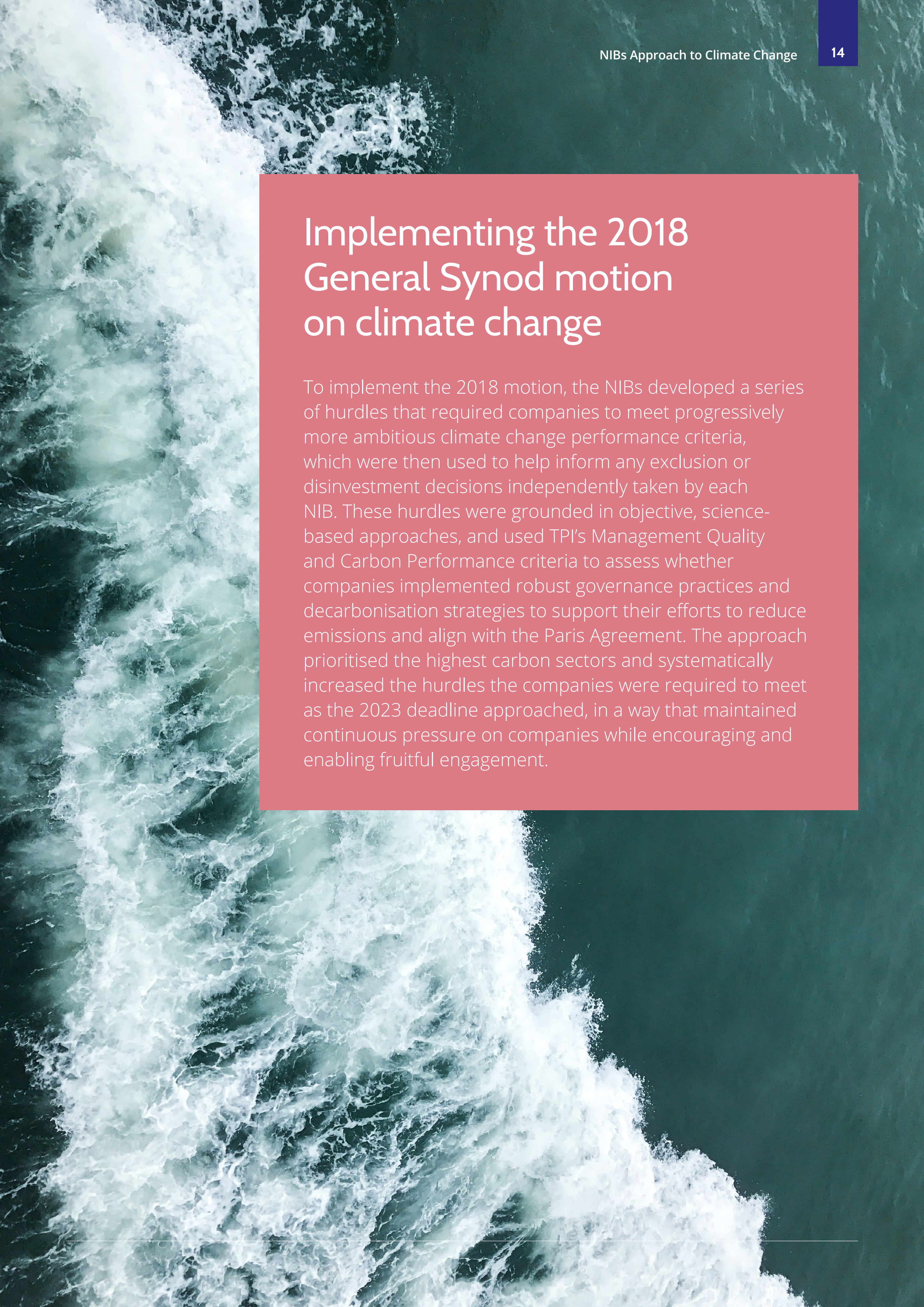
- Align portfolios with net zero emissions.
- Provide company benchmarking to engagement initiatives such as CA100+.
- Place transparency and independent analysis at the heart of investor decision making.
- Support the transition within public markets, corporate debt markets and sovereign debt markets.

TPI assesses 600 publicly listed companies in 16 high emitting sectors for their alignment with the Paris Agreement and the governance they have in place to manage transition risk. In its latest analysis, 29 of 111 (26%) oil and gas companies had improved their Management Quality score compared to the previous year and 94 of 111 (85%) companies now have greenhouse gas emissions reduction targets.

Engagement and exclusions

The NIBs have a long history of engaging with companies, particularly high carbon emitting companies, on climate-related topics. While the NIBs are relatively small investors in terms of the portfolios we manage, we have used our voices wisely, often through bilateral engagements where the weight of additional investors can have more influence. By co-founding, leading and participating in initiatives in partnership with other investors, we have had an impact beyond our pool of capital and continue to advocate for best practice across the industry.

Excluding companies has always been an option and is one that the NIBs have each independently chosen to utilise to implement other ethical investment policies in the past. However, the NIBs' focus tries to influence real- world change by engaging with companies either directly or through climate initiatives. An investor can potentially have more influence if it holds shares or bonds in a company, and the NIBs want to use this influence as we seek a net zero world, not just net zero investment portfolios. The combination of engagement and ratcheting hurdles for disinvestment has contributed to several oil and gas companies upping their game on climate.



Implementing the 2018 General Synod motion on climate change

To implement the 2018 motion, the NIBs developed a series of hurdles that required companies to meet progressively more ambitious climate change performance criteria, which were then used to help inform any exclusion or disinvestment decisions independently taken by each NIB. These hurdles were grounded in objective, science-based approaches, and used TPI's Management Quality and Carbon Performance criteria to assess whether companies implemented robust governance practices and decarbonisation strategies to support their efforts to reduce emissions and align with the Paris Agreement. The approach prioritised the highest carbon sectors and systematically increased the hurdles the companies were required to meet as the 2023 deadline approached, in a way that maintained continuous pressure on companies while encouraging and enabling fruitful engagement.

The programme targeted engagement efforts at the 166 companies on the CA100+ focus list. These are the largest publicly listed emitters in the world, and in 2018 they accounted for roughly 80% of global public equity markets' emissions. Of the 166 companies in CA100+, some had been excluded before this initiative began due to their involvement in coal and/or oil sands.

When setting the hurdles for exclusion in 2018, the NIBs each focused on the highest emitting companies. As our climate engagement work continued between 2018 and now, we differentiated between suppliers of fossil fuels and other sectors that are high emitting, but which are crucial to the green transition, such as utilities and car manufacturers.

To maximise the potential impact of our engagement and best leverage each of the NIBs' voices as responsible investors, we collaborated closely with CA100+ engagements where possible or appropriate and played important global leadership roles in key engagements.

Company performance against climate hurdles

When a company strengthens its climate targets, it is difficult to attribute this change directly to engagement by a single organisation. But the improvements across the CA100+ focus companies show that our efforts have been a significant part of the change in ambition of high emitting companies to align with the Paris Agreement.

Table 1 below details the TPI's assessment of Paris alignment by oil and gas companies in the short, medium, and long term and which shows that **none of them pass the 2023 hurdle**. Table 2 shows the companies that have passed and failed the various climate hurdles since the 2018 Synod motion.

Engagement with utilities that are important for the transition

When we set the final hurdles that fell within the scope of this Synod motion, we looked to see which fossil fuel companies and electric utilities were not aligned with the Paris Agreement. In the electric utility sector, 23 were within scope of being assessed against the criteria.

But this analysis was not simple. To achieve a net zero world, the use of fossil fuels needs to decline to decarbonise the economy. Yet the ability to decarbonise the economy partly depends on how quickly the power and transport sectors can shift from fossil fuels to electricity fuelled by greener technologies, such as wind, solar and hydro. While electric utilities and fossil fuel companies both have high emissions, their role in the transition is fundamentally different.

With that in mind, we have assessed fossil fuel companies on their alignment with the Paris Agreement in the **short, medium and long term**, and for electric utilities we have focused only on long-term alignment.

For the 23 utilities within scope, 22 align with well below 2°C in the long-term, and one has focused on setting ambitious short-term targets aligned with 1.5°C[5]. We see this as a positive and significant step in the right direction. As a result, we continue to see the case for engaging with the electric utility sector and each NIB seeks to remain invested in them, based on their long-term climate targets and ensuring they have policies on a 'just' transition in developing markets, where relevant.

Table 1 – 2023 assessment of oil and gas Companies[6]

Company	2025 alignment	2035 alignment	2050 alignment
Ecopetrol	Not aligned	National pledges[7]	National pledges
Equinor	Not aligned	Not aligned	Not aligned
Repsol	Not aligned	Not aligned	National pledges
Royal Dutch Shell	Not aligned	Below 2°C	1.5°C
TotalEnergies	Not aligned	National pledges	1.5°C
Occidental Petroleum	Not aligned	Below 2°C	1.5°C
Eni	National pledges	National pledges	1.5°C
BP[8]	Not aligned	National pledges	1.5°C
ExxonMobil[9]	Not aligned	Not aligned	Not Aligned
SASOL LIMITED	Not aligned	Not aligned	1.5 Degrees
Petroleos Mexicanos	Not Aligned	Not Aligned	Not Aligned

Table 2 – Companies that have passed or failed the climate hurdles 2020-2023

Year	Criteria	Companies failing ✖	Companies passing ✔
2020	Power generation in OECD (within CA100+) aligned with NDCs by 2050 CA100+ companies across sectors with a TPI Management Quality score of >2	● **American Electric Power** Anhui Conch Cement Berkshire Hathaway ● **FirstEnergy** Formosa Petrochemical Corporation (FPCC) ● **Korea Electric Power Corporation (KEPCO)** Oil & Natural Gas Corporation (ONGC) ● **PPL** SAIC Motor	AGL Energy CEZ Dow Duke Energy Engie Exelon ★ **NextEra Energy** PGE Power Assets Holdings Reliance Industries Rosneft Southern Company Suzuki Vistra Energy WEC Energy Group
2021	CA100+ companies in oil and gas, power generation and supply-side mining aligned with NDCs by 2050 Any CA100+ company with a TPI Management Quality. score of >3	● **BP** ● **BHP** Chevron China Petroleum & Chemical Corporation (SINOPEC) CNOOC ConocoPhillips Dangote Cement Devon Energy Eneos (Oil & Gas) ★ **ExxonMobil**[10] Gazprom Lukoil Marathon Petroleum NTPC OMV Petrobras PetroChina Phillips 66 Power Assets PTT Reliance Industries Rosneft Oil Santos SK Innovation Southern Copper Corporation Teck Resources Valero Energy Woodside Energy	Adelaide Brighton (Adbri) Ecopetrol Enbridge Equinor Martin Marietta Materials Occidental Petroleum Origin Energy PGE Sasol Severstal Suzano ★ **Shell**
2022	Demand-side CA100+ companies aligned with NDCs by 2050	Adbri Martin Marietta Materials	Stellantis Air France Delta Air Lines Qantas Airways
2023	Any fossil fuel company not aligned with the goal of the Paris Agreement will be restricted. Includes coal mining, oil and gas.	BP Ecopetrol Eni Equinor Occidental Petroleum Petroleos Mexicanos Repsol Sasol ★ **Shell** TotalEnergies	

● Companies that have passed the hurdle at a later date after failing it initially.
★ flagship engagements

CBF Funds managed by CCLA: NextEra Energy

'Real Zero' commitment and lobbying transparency

The CBF Church of England Funds, managed by CCLA, holds shares in only one electrical utility company – NextEra Energy in the US. In 2021, we reported that we had recently withdrawn a shareholder resolution after the company committed to respond to the Carbon Disclosure Project (CDP). This additional transparency resulted in an improved Management Quality score by TPI: increasing from 2 to 3 on a 0 (lowest) to 4* (highest) scale.

Given our parallel discussions in 2021 about setting targets that were more ambitious than its peers' target setting, we were pleased to see the 'Real Zero' by 2045 commitment the company made in the summer of 2022. This incorporated annual interim targets over five years, including a new target for 2025 (reducing its carbon dioxide (CO_2) emissions rate by 70%, up from 67%, from a 2005 baseline). These milestones will be factored into TPI's next Carbon Performance assessment in the autumn.

As part of this year's Climate Action 100+ priorities, we were asked to be the lead filer of a shareholder resolution focusing on trade association disclosure. We recently agreed to withdraw this resolution given that the company has committed to improve its lobbying disclosures in the autumn.

THE CHURCH OF ENGLAND
PENSIONS BOARD

Church of England Pensions Board: Energy demand-side companies

Engaging to address the demand for fossil fuels

After developing a Global Net Zero Standard for the oil and gas sector, the Pensions Board is now prioritising engagements with companies that demand energy from fossil fuel companies. According to the International Energy Agency (IEA), the largest fossil fuel users are the transportation sector, the electric utility sector and the industrials sector. Pivoting these sectors away from fossil fuel use will be critical to determining whether global emissions will reduce by half by 2030, which is required to limit global warming to 1.5°C.

If demand does not change, suppliers are unlikely to change. Therefore, the Pensions Board has been leading a European-wide approach through the Institutional Investors Group on Climate Change (IIGCC), to refocus engagement on demand-side companies. We are co-leading engagement with BMW, Mercedes, Renault, VW and National Grid and participate in engagement with Toyota in Japan.

Important milestones on the pathway to 1.5°C alignment for these sectors include:

By 2030:
- 60% of car sales are electric.
- New clean energy technologies in industry have been demonstrated at scale.
- Phase-out of unabated coal in electricity generation in advanced economies.

By 2035:
- There are no new internal combustion engine cars sold.
- Electricity generation is net zero in advanced economies.
- 50% of heavy truck sales are electric.

The Pensions Board has updated its expectations for companies in the transportation, electric utilities and industrials sectors, and is escalating engagement where companies are persistently misaligned.

The Pensions Board will report annually on its progress with these companies in its Stewardship and TCFD reporting.

Church Commissioners: ExxonMobil

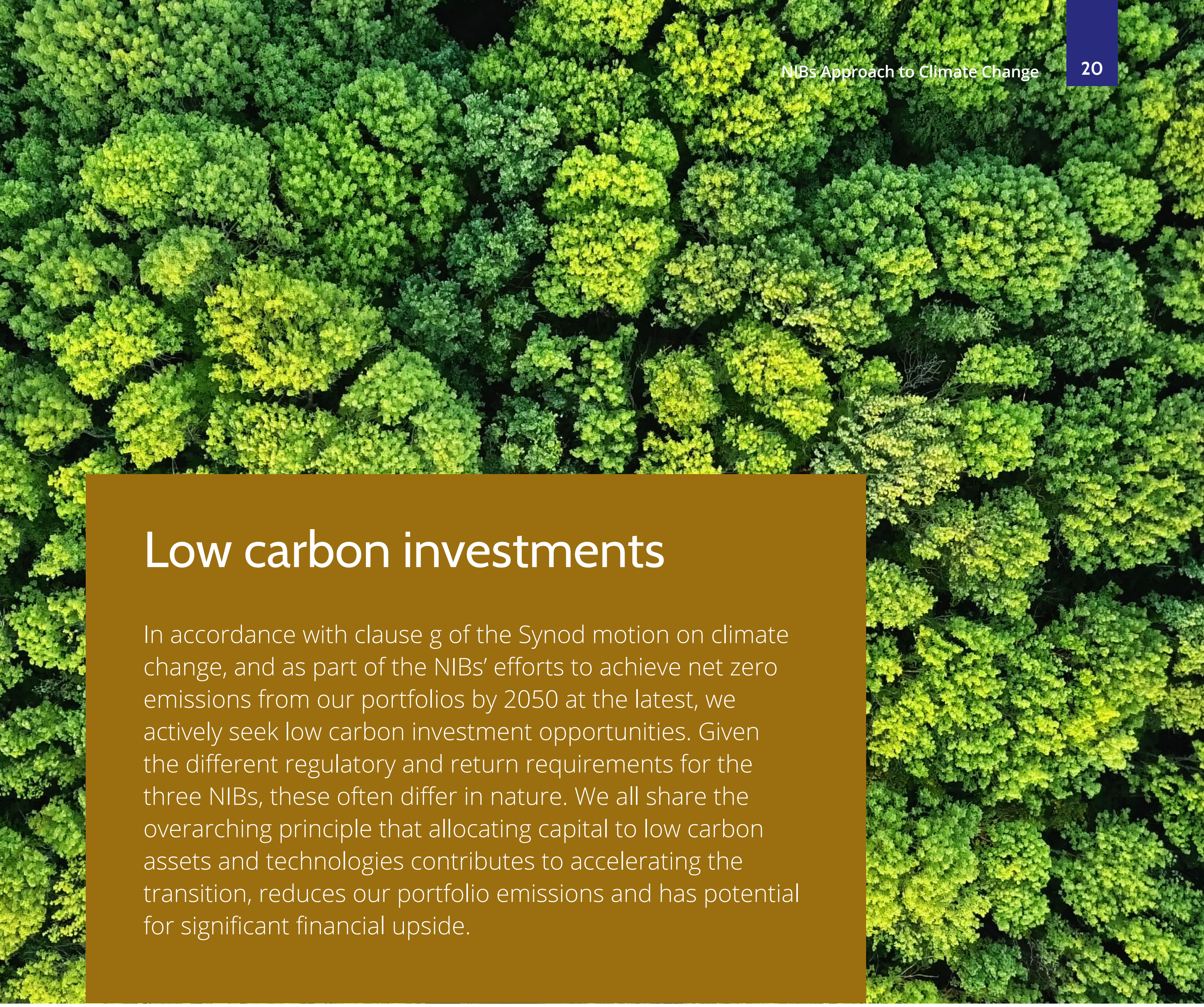
At a crossroads

The Church Commissioners has engaged with ExxonMobil since 2015, and in that time has discussed disclosure, governance and climate performance. This included co-filing the first shareholder resolution to go on the ballot at Exxon in 2017, which asked the company to report how its business model would be affected by a low carbon transition. Disclosures, industry collaboration and governance improved, but not sufficiently.

The Church Commissioners supported Engine No.1's activist campaign at the 2021 AGM, which resulted in the appointment of three new board directors with climate expertise and a mandate to advocate for a robust transition plan. The company then engaged on what appeared to be a superficial level while the independent directors worked on a climate strategy.

The company in 2022 published its net zero by 2050 target, while we voted for multiple climate-related shareholder resolutions. FollowThis, an NGO, called for GHG emissions reduction targets consistent with the Paris Agreement. The resolutions did not pass, but Exxon updated its climate strategy in December 2022 and updated its Advancing Climate Solutions report in 2023.

These were positive steps, yet the company continues to expand oil production. Transformation takes time, but after eight years of engagement, the Church Commissioners believes Exxon is not transitioning at the pace needed. The Church Commissioners, therefore, voted against all directors at the latest AGM and is now excluding the company from investment.



Low carbon investments

In accordance with clause g of the Synod motion on climate change, and as part of the NIBs' efforts to achieve net zero emissions from our portfolios by 2050 at the latest, we actively seek low carbon investment opportunities. Given the different regulatory and return requirements for the three NIBs, these often differ in nature. We all share the overarching principle that allocating capital to low carbon assets and technologies contributes to accelerating the transition, reduces our portfolio emissions and has potential for significant financial upside.

Church Commissioners

As investor of an endowment fund with significant land-holdings as well as allocations to public and private markets, the Church Commissioners can invest in low carbon investments across multiple asset classes and structures. The Church Commissioners regularly looks for investments in climate solutions. Current investments and areas of focus include:

- Several specialist funds focusing on renewables and energy efficiency; 75% of capital committed to infrastructure funds are focused on green energy and transportation, e.g. in renewable energy infrastructure initiatives including wind and solar farms in Ireland, and electric vehicle charging infrastructure in the UK.
- 92,000 acres of forestry, 100% of which are certified as being sustainably managed.
- 11.8 million trees planted in the last five years with 2.7 million planted in 2022, which will sequester an estimated 100,000 tonnes of net CO_2 per year over 20 years.
- Wind farms integrated on our timberland that will produce enough power for over 150,000 homes and avoid over 240,000 tonnes of CO_2 equivalent emissions annually.
- Planning permission to develop our first net zero homes in the UK.
- Additional investment in specialist renewables and energy efficiency funds and direct investments.

The Church Commissioners continues to look for opportunities to invest in climate solutions, both within its direct holdings in real assets and in asset classes managed by external fund managers. In mid-2023, the Church Commissioners will publish additional information on its approach to climate change and sustainability in real assets on our website: Publications | The Church of England.

Church of England Pensions Board

The Pensions Board's listed equity investments track the award-winning FTSE TPI Climate Transition Index, which the Pensions Board's stewardship team helped to design, in collaboration with FTSE Russell and the Transition Pathway Initiative. This index integrates climate adjustments into its methodology, in order to mitigate climate transition risk, as follows:

- **Fossil fuel reserves:** Reduces holdings in companies with fossil fuel reserves.
- **Carbon emissions:** Increases or reduces holdings in companies according to their greenhouse gas emissions while applying sector neutrality.
- **Green revenues:** Increases holdings in companies generating revenues from the global green economy.
- **Management Quality:** Increases or reduces holdings in companies based on the extent to which they are managing the risks and opportunities related to the low carbon transition, and how they are addressing key aspects of the Task Force on Climate-related Financial Disclosures (TCFD).
- **Carbon Performance:** Increases holdings in companies by doubling investments or penalises by reducing or excluding investments in companies according to the extent they are committed to carbon emissions pathways aligned with 2°C or below 2°C warming scenarios.

The approach has also been applied to all investments in public companies. The consequence of the index has been a significant increase in the exposure of the fund to companies with green assets as well as exclusion of those not transitioning. As a result of this approach the Pensions Board is ten years ahead of its emissions reduction goals.

The Pensions Board in 2022 launched a collaboration of 12 UK pension funds in the Emerging Markets Just Transition Investing Initiative, which aims to drive investment into emerging markets to support the transition to net zero. As well as providing leadership on this as a sector-wide issue, the Pensions Board has also committed to develop an investment strategy for transition and/or climate solutions investments in emerging markets.

The Pensions Board had nearly £120m in climate solutions or green revenues in its portfolio in 2022.

CBF Funds managed by CCLA

CCLA's investment approach recognises that well managed 'impact' assets not only play a significant role in diversifying portfolios, but also have a positive social and environmental impact. CCLA has made several low carbon investments within the CBF Investment Fund, including wind, solar, battery storage and energy efficiency assets in private equity funds and direct investments.

As an early investor in renewable energy generation trusts, CCLA helped support the growth of the sector through its infancy. CCLA has made an important contribution to the growth of clean energy infrastructure in the UK and to it being widely accepted as an investible asset class.

CCLA believes that purchasing assets available for investment on the secondary market can be limited in real-world impact because these are assets that already exist, and are just being bought or sold between two or more investors. CCLA prefers to identify assets on the primary market because that is where capital is specifically and most efficiently directed to enable 'new change' to happen.

That is why CCLA partnered with the UK Government department, BEIS, to launch the Clean Growth Fund, a venture capital fund supporting the growth of early-stage UK-based companies that are commercialising technologies and services that make a significant environmental impact.

Other investments where CCLA has provided primary capital include renewable energy generation and energy efficiency projects, both in the developed and emerging markets. Through local specialist asset managers, CCLA has, for instance, invested in companies focused on developing green building materials, flue gas treatment innovation, and water pollution control.

In allocating primary capital to such projects, CCLA adopts a rigorous process for assessing and managing climate risk. In doing so, CCLA provides fresh capital to growing and undersupplied capital markets.

Conclusion and next steps

We have engaged with intent and commitment and achieved significant outcomes as a result. We have built TPI and other accountability tools that are used by the wider market, and we have led the process to create the global standard for what it means to be credibly aligned to net zero for the oil and gas sector. We have used our voice and driven change.

In serving our members and beneficiaries we have engaged in line with our fiduciary duties and applicable laws and regulations, informed by advice from the EIAG and the commitment we made to the July 2018 Synod.

The bar we set was clear and independently assessed. Some oil and gas companies in Europe have come close, but none have met the final hurdle. As a result, each NIB has taken a decision to restrict these companies and disinvest their remaining holdings.

Our long-term objectives to steward the assets entrusted to us on behalf of our beneficiaries and members requires us to remain a committed and active voice in global investor efforts to address climate change and related financial risks. While that voice will not be present at the AGMs of oil and gas companies, it will be in the sectors that demand energy and in public advocacy for policy and regulation to achieve the goals of the Paris Agreement.

Engagement continues to be an important lever for change. As climate finance becomes more sophisticated, different portfolios will take different approaches in this area. Some will engage, some will divest, and some will have a hybrid approach.

We continue to be blessed by teams, trustees, partners, beneficiaries and stakeholders who care deeply about these issues, and who have worked and are continuing to work tirelessly to make a difference. We are grateful for what they have achieved to date on this complex, challenging and consequential matter. Climate change remains an urgent systemic risk. In the context of our distinct investment objectives and regulatory regimes, each of the NIBs will continue to address climate change through advocacy, partnerships, and portfolio investments. We do so, inspired by the fourth and fifth marks of mission and our Christian calling.

Appendix I – A way forward

Church Commissioners

The Church Commissioners is pleased with what it has achieved on combatting climate change, particularly in the last five years. In November 2022, the Church Commissioners agreed a new net zero and climate change strategy, which will take us to the next phase of our approach. The number of external initiatives and potential actions is ever increasing and, while we are supportive of these developments, we are looking to focus on levers of change where we can maximise our influence to achieve a net zero world, not just a net zero investment portfolio.

We believe we can influence outcomes through the following three actions:

1. Aligning our processes:

- We will emphasise the importance of addressing climate change by having best practice policies and processes in place, excluding activities that we do not believe are part of the transition, allocating capital to managers that factor climate change into their investment decisions and participating in industry groups and initiatives addressing the issue. We recognise that these actions may not in themselves drive change, but they are crucial pieces to influence the efficiency and sustainability of the market more broadly.

- In addition to excluding companies with primary businesses in coal mining and oil sands, as well as those which have failed to meet TPI hurdles as described in this report, our next phase of climate exclusions is to *"by the end of 2023, exclude companies whose primary business function is derived from exploration, production and refining oil or gas unless they are on a genuine pathway to transition in alignment with a 1.5°C pathway"*.

2. Engage actively:

- We engage with our external managers, tenants and companies across our portfolio to promote and support greater action on transition in alignment with a 1.5°C pathway.

- We engage with regulators and policymakers, both in the UK and globally, to promote good financial market practices, greater climate action and break down barriers to decarbonise real assets.

- We engage with our peers and the industry to promote and improve best practices and foster new collaborations (as appropriate). In addition to the initiatives mentioned in Appendix II, we are active in the property, farmland and forestry communities by, for example, founding the Future Land Forum – a forum where the whole value chain in the tenanted farmland sector comes together to break down barriers for an environmentally beneficial farming sector.

3. Invest in climate solutions:

- We always look for how we can invest in climate solutions across our portfolio and see it as a benefit when our managers with wider mandates seek solutions investing.

- This ranges from helping to finance low carbon solutions for our tenants and properties to investing in large funds that build renewable energy or invest in publicly listed companies that provide transition technologies.

To read more about our approach, please see our forward-looking climate report and approach to sustainability in real assets on our website: Publications | The Church of England.

Church of England Pensions Board

The Church of England Pensions Board has a long-standing commitment to act on climate on behalf of our beneficiaries, their communities and the planet, in line with our fiduciary duties and applicable law and regulation.

The overarching aims of our work on climate change are to reach net zero across all of our investments by or before 2050, and to do our part to limit global warming to no more than 1.5°C above pre-industrial levels.

In mid-2023, we will publish additional information on our approach to climate change and sustainability in real assets on our website: Publications | The Church of England.

Stewardship priorities

We are still committed to doing our part to phase out the use of fossil fuels in a just and fair way, and will focus our efforts on the demand for and financing of fossil fuel projects including:

- Engagement with the utilities, transportation and industrials sectors on fossil fuel demand.

- Engagement with banks on providing debt to fossil fuel companies.

We will continue our long-standing focus on corporate lobbying and public policy engagement, and our focus on mining companies as key to the transition to net zero. We are also continuing to engage in emerging markets such as South Africa on the complexity of the transition.

Public policy priorities
We will continue to push for greater public policy that supports the transition to net zero and seek for the companies we invest in to do the same. Additionally, we will roll out the Assessing Sovereign Climate Risks and Opportunities framework once complete and begin our own direct engagements with foreign governments as issuers of sovereign debt.

Driving the transition priorities
- We will continue to lead initiatives that develop tools and voluntary standards for industries including: a Global Net Zero Standard for the Mining Sector as well as leadership of the Global Investor Commission on Mining 2030, which is focused on transforming the mining sector and to ensure it can meet the demand for the low carbon transition for transition minerals and metals.

- A Global Net Zero Standard for the Autos sector.

- The Emerging Markets Just Transition Investing Initiative, including building tools to support allocation to climate in emerging markets.

Portfolio priorities
We apply best practice in relation to decarbonising our portfolio including:

- Using the market-leading Transition Pathway Initiative FTSE Russell Climate Transition Index, which weights our portfolio holdings towards lower carbon investments and those companies with ambitious decarbonisation goals.

- Investing in climate solutions and the transition to net zero in emerging markets.

- Continuing to assess our managers on climate and ESG and escalating (including ending a mandate) where there is misalignment with our views.

For more information on our approach to climate change, please see our Climate Action Plan, which will be released in mid-2023.

CBF Funds managed by CCLA

CCLA, on behalf of CBF Funds, has engaged with listed companies on climate since 2008. Our approach in the last five years has resulted in some notable outcomes. These have been in the policy sphere, in changes in company strategy and in allocating capital to impact assets.

However, we are concerned that the world is not acting fast enough to meet the challenges we collectively face from climate change and associated environmental impacts. We consider a combination of public policy engagement, systemic action and targeted company engagement to be the best way to accelerate climate action and incentivise companies to reduce emissions.

Progressive regulation and legislation will play a vital role in accelerating progress on decarbonisation targets. When legislation is strengthened it increases all companies' climate action, not just those in a portfolio. In our work with government bodies and legislators, we push for robust regulatory action. We will prioritise our involvement with the Delivery Group of the UK Government's Transition Plan Taskforce, developing and strengthening the guidance for mandatory disclosure on transition plans. We will also respond to government consultations that have systemic importance to promote rigorous climate and environmental regulation.

Our systemic approach means we not only address the policy dimension, but also specific markets. This includes engagement with the FTSE All-Share Index to promote companies formulating and disclosing a transition plan and putting this to shareholders for approval. We will participate in engagement with a range of European companies to provide the same accountability mechanism.

In our engagement with companies, we focus on them achieving demonstrable real-world change. We consider it essential they should make credible decarbonisation commitments based on science. This means ensuring emissions overall stay within the global carbon budget for remaining within a 1.5°C temperature rise. We expect companies to set targets based on science, and to demonstrate associated emission reductions in the critical decade to 2030.

Our more intense engagement is with some of the most carbon-intensive businesses in our portfolios. These comprise electrical utilities, consumer goods businesses, food and drinks companies, and mining companies. Recognising the role that the financial services industry plays through provision of finance to high emission projects, we will also focus on bank lending, financing, and investing activities. With US partners, this includes engagement focused on alignment with 2030 emissions reduction targets. Going forward we will extend this work to cover all Deposit Fund counterparties.

We allocate new capital to projects directed at a positive climate impact. This includes battery storage and energy efficiency, green technology, and solar and wind power. Where possible, we aim to allocate primary capital to these projects, providing fresh capital to growing and undersupplied capital markets.

Our approach has developed significantly over the past 13 years and continues to evolve in line with updated reports on scientific consensus around the global carbon budget, and builds on successful engagement strategies to influence change. We look forward to continuing to develop best practices and strengthen our influence with our National Investment Body colleagues.

Appendix II – Climate-related initiatives

A selection of climate-related engagement initiatives by each National Investing Body

Initiative	Church Commissioners[11]	Pensions Board	CBF Funds managed by CCLA
Assessing Sovereign Climate-related Opportunities and Risks		Founded and co-chairs	
CDP non-disclosure initiative			Member
CERES/ICCR banks working group			Member
Climate Action 100+ (CA100+)	Founding member and current co-lead on Bayer	Founding member and co-lead on engagement with VW, Mercedes, Renault, BMW and Anglo American	Founding member and co-lead on Coca-Cola, Nestlé and Unilever
Finance Sector Action on Deforestation (FSDA)	Founding member and on the steering group	Member	
Financing a Just Transition Alliance	Member	Member	Member
Institutional Investors Group on Climate Change (IIGCC)	Member	Member, Board member and Chair of Corporate Programme	Member
Investors Policy Dialogue on Deforestation	Co-Chair and Management Committee member		
Global Investor Commission on Mining 2030	Member	Set up the Commission and chairs	
Net Zero Asset Managers Initiative			Founding member
UN-convened Net Zero Asset Owner Alliance (AOA)	Member and co-lead for Monitoring, Reporting, and Verification and Policy tracks		
IIGCC Net Zero Engagement Initiative	Member	Founding member and on the steering group	Member
Paris Aligned Investor Initiative overseeing the net zero Investment Framework		Founding member and co-chair of Global Asset Owner Steering Committee	Member
Powering Past Coal Alliance	Member	Member	Direct involvement in working group
Transition Pathway Initiative	Member of Asset Owner Board and founding member	Chair of Asset Owner Board and founding member	Founding member
UK Government Transition Plan Taskforce delivery group		Member	Member
UKSIF Green Taxonomy Working Group	Member		
Investor Responsible Corporate Climate Lobbying Initiative		Founding member and co-chair	
International Energy Agency (IEA) Finance Advisory Board		Member	

Endnotes

1 IPCC special report on 1.5°C Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments — IPCC.

2 4. To transform unjust structures of society, to challenge violence of every kind and pursue peace and reconciliation; 5. To strive to safeguard the integrity of creation, and sustain and renew the life of the earth.

3 2015 Climate Change Policy (EIAG and NIBs) section 1.2.3.

4 2015 Climate Change Policy (EIAG and NIBs) section 1.2.3.

5 Short term = 2025, medium term = 2035, long term = 2050.

6 Assessment by TPI as of April 2023. The output of this assessment and any consequential decision to exclude a company was independently considered by each NIB.

7 National pledges represent the pathways for the national decarbonisation plans that individual countries have submitted to the UN to show their adherence with the Paris Agreement.

8 Was restricted in 2021 and unrestricted in 2022.

9 Special investable for Commissioners due to previous engagement.

10 The Church Commissioners stayed invested as a special investible to continue the engagement after three new board members were elected to the board in relation to the Engine No.1 campaign. The Church Commissioners is excluding ExxonMobil along with the other ten oil and gas companies.

11 In addition to the initiatives below, the Church Commissioners has founded and is a member of many initiatives and associations focusing on decarbonising and creating more nature-friendly farmland, forestry and property sectors, e.g. the Future Land Forum.

THE CHURCH
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