

The Church of England Funded Pensions Scheme

Annual Report and Financial Statements
31 December 2022

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Appendix 1: Ethical Investment Approach of the Church of England Pensions Board

Appendix 2: Church of England Investment Fund for Pensions

Appendix 3: Implementation Statement

Trustee's report

The Church of England Pensions Board (the "Board"), as Trustee of The Church of England Funded Pensions Scheme ("CEFPS", or the "Scheme"), is pleased to present the Scheme's annual report for the year ended 31 December 2022.

Scheme constitution and relationship to the Church of England Pensions Scheme

The Scheme was established in accordance with the Pensions Measure 1997 and commenced on 1 January 1998 to provide defined benefit pensions for clergy and others in the stipendiary ministry.

Benefits arising from service prior to 1998 are the liability of The Church of England Pensions Scheme ("CEPS"), which is wholly funded by the Church Commissioners. The Board administers the CEPS on behalf of the Church Commissioners and, from the members' perspective, runs the CEFPS and the CEPS. Those with pension benefits earned from both schemes have a single point of contact and on retirement receive a single lump sum and consequently a single pension payment each month. The CEFPS makes these payments on behalf of the Church Commissioners and is fully reimbursed by them for the pre-1998 element they are responsible for funding. These amounts are not included in the financial statements of the CEFPS.

Scheme management

The Board as Trustee is responsible for setting the overall strategy and managing the Scheme. The Board has established various committees to assist it in this responsibility. The Board has members elected and appointed by various means, which are described below. It delegates some of its business and decision making to sub-committees.

Board Members (1 January 2022 to 13 July 2023)

| Appointed with the approval of the General Synod, by the Archbishops of Canterbury and York Clive Mather (Chair) | |
|---|---|
| Appointed by the Archbishops of Canterbury and York Roger Boulton FIA Canon Emma Osborne Ian Wilson | Appointed by the Archbishops of Canterbury and York after consultation with the Chairs of the Church of England Appointments Committee and the General Synod's House of Laity Tony King |
| Appointed by the Archbishops of Canterbury and York after consultation with the Chair of the Church of England Appointments Committee and the Prolocutors of the Convocations of Canterbury and York The Revd Caroline Titley | Appointed by the Archbishops of Canterbury and York after consultation with the Church Commissioners and the representatives of the dioceses Nikesh Patel |
| Elected by the members of the Church Workers Pensions Fund Michaela Southworth | Elected by the members of the Church Administrators Pensions Fund Maggie Rodger |
| Elected by the members of the clergy pension schemes The Revd Hugh Lee The Revd Canon Eleanor Robertshaw | Elected by the Employers in the Church Workers Pensions Fund and the Church Administrators Pensions Fund Richard Hubbard |

Committee Members (1 January 2022 to 13 July 2023)

| | |
|---|--|
| Audit and Risk Committee Maggie Rodger (Chair) Tony King Ian Wilson Helen Ashley Taylor* Canon Susan Pope* Caron Bradshaw OBE* | Pensions Committee Richard Hubbard (Chair) The Revd Hugh Lee Maggie Rodger Michaela Southworth Ian Wilson |
| Housing Committee The Revd Caroline Titley (Chair) Tony King The Revd Canon Eleanor Robertshaw Jonathan Gregory* Tom Paul* Lawrence Santcross* The Rt Revd Alan Wilson* | Investment Committee Matthew Beesley* (to June 2022) Roger Boulton (Chair) Hannah Gore-Randall* (from March 2023) Canon Emma Osborne Nikesh Patel Jonathan Rodgers* (to May 2023) Chris Rule* (from March 2023) Padmesh Shukla* (from March 2023) |

*Indicates members of committee who kindly give of their time and experience to the committee but are not trustees of the Pensions Board.

Trustee's report (continued)

Scheme advisors

The Trustee engages the below professional advisors to assist them in their responsibilities.

| | | |
|---|--|--|
| Actuary | Aaron Punwani, Lane Clark and Peacock LLP | |
| Independent auditors | Crowe U.K. LLP | |
| Bankers | Lloyds Bank plc | |
| Investment Advisors | Mercer Ltd | |
| Investment Custodians | Northern Trust Company Ltd | |
| Investment Managers (Scheme) | BlackRock Investment Management (UK) Limited | |
| Investment Managers (Common Investment Fund) | Antin Infrastructure Partners Arrowstreet Capital (until May 2022) Audax Group Basalt Infrastructure Partners Blackstone Cambridge Associates CBRE Global Investors Colchester Global Investors DBL Partners DIF Management | EQT Infrastructure Partners Igneo (formerly First Sentier) Generation Investment Management LLP GW&K (Until January 2022) H.I.G. Capital Insight Investment Management I Squared Global Capital KKR & Co. LP Legal & General T Rowe Price International Ltd |

Investments

Other than the Scheme's liability driven investments ("LDI"), the Scheme's investments are principally held in The Church of England Investment Fund for Pensions ("CEIFP"). The CEIFP was established in 1985 as a common investment fund for the Board's pension schemes. The Scheme has been a member of the CEIFP since 1998. The CEIFP pools assets to take advantage of economies of scale and reduce risk through diversification, to which the smaller schemes that are also managed by the Board would not have access on their own. The CEIFP's annual report and financial statements are attached at Appendix 2.

The CEIFP has five pools: the public equity pool containing mostly listed equities, the diversified growth pool containing mostly property and private equity assets, the diversified income pool containing mostly private loans and infrastructure assets, the listed credit pool containing corporate bonds, and the liquidity pool containing cash.

In 2022 the Trustee, after taking investment advice and consultation with employers, has reviewed the Scheme's weighting to each pool and adopted a strategy to ensure the assets held are best suited to the Scheme's long-term interests. See the investment strategy section and the investment risk disclosures in Appendix 2 for more information.

Members can make additional voluntary contributions to secure additional benefits. These are invested in a segregated pool of investments and managed separately.

Rule changes

A Deed of Amendment dated 5 July 2022 brought the definition of ill health retirement under the rules in line with the past service scheme. There were no other changes to the Scheme's rules during 2022. A full copy of the Scheme's rules is available on request.

Financial developments

If 2021 was marked by high returns across most markets and asset classes, 2022 could not have been more of a contrast. It was always going to be a challenging market environment, as governments and central banks removed their support to pandemic afflicted economies, but the Russian invasion of Ukraine and the resulting energy crisis added to inflationary pressures and led to a marked increase in interest rates in most major economies. This had an adverse impact on equity markets and fixed income and credit markets, providing few places where investors could make positive returns.

One of the worst performing asset classes in headline terms was UK government debt, where values fell as interest rates on these 'Gilt' edge securities rose sharply in response to the crisis in confidence sparked by the UK mini fiscal statement in September 2022. While this has reduced the market value of the gilt holdings, the liabilities of pension schemes (or the lifetime cost of paying pensions) are in large part measured with reference to these gilt yields. Because the rise in gilt yields reduces the expected future cost of providing pensions, there has been an improvement in the funding position of the Scheme. As the schemes mature, with more pensions in payment, the funding level becomes a very important measure of scheme security.

Market sentiment continues to be dominated by the outlook for inflation and whether central banks will have to raise interest rates to a level that could ultimately lead to a global recession. Early indications that inflation may have peaked, an end of China's zero-COVID policy and bounce in both the local and broader Asian economies, have provided some encouraging signs to the start of 2023 that such a recession may yet be avoided. However, geopolitical uncertainties remain and predicting the near-term performance of markets remains as difficult as ever.

This is why we invest for the long-term and hold a well-diversified portfolio. This approach to investment and strong and sustained returns that this has achieved over time combined with the recent rise in gilt yields have driven improvements in the funding level of the scheme.

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under Sections 41(1) and (6) of that Act. In accordance with the amendment to the Audited Accounts

Trustee's report (continued)

Financial developments (continued)

Regulations effective from 1 April 2016, an auditor's statement about contributions is not required for the Scheme as it is a multi-employer scheme with more than 20 participating employers.

Going Concern

There has been no significant impact on contributions received from employers, as a result of the post pandemic context, geopolitical uncertainty or economic climate, and benefits have continued to be paid when due.

The Scheme is supported by the employer covenant, because this ultimately underwrites investment risk and funding risk. A detailed covenant assessment is undertaken to coincide with each triennial valuation. This includes assessment of financial strength and security and stress testing the ongoing viability of funders under various economic scenarios. Between valuations the Board undertakes pro-active engagement with responsible bodies, encourages all responsible bodies to inform the Board of relevant matters that may affect their covenant, and draws on information available to other NCIs on the financial health of responsible bodies. The Trustee has considered the impact that the post pandemic context, geopolitical uncertainty and the economic climate has had on the responsible bodies and is satisfied that there was no material deterioration in the overall employer covenant and the employers can continue to support the Scheme for the foreseeable future.

Membership

The change in membership during the year is as follows:

| | Active | Deferred | Pensioners | Beneficiaries | Total |
|--|--------------|--------------|---------------|---------------|---------------|
| At 1 January | 8,019 | 2,616 | 10,617 | 3,761 | 25,013 |
| New members joining | 412 | - | - | 249 | 661 |
| Members retiring | (399) | (143) | 542 | - | - |
| Members leaving prior to pension age | (310) | 310 | - | - | - |
| Deaths | (15) | (7) | (451) | (237) | (710) |
| Re-entrants (*) | 102 | (102) | - | 1 | 1 |
| Members retiring with full commutation | (1) | (5) | - | - | (6) |
| Ceased (e.g. dependent children turning 18/23) | (1) | - | - | (5) | (6) |
| Transfers out | (3) | (5) | - | - | (8) |
| Members withdrawn with no liability | (5) | - | - | - | (5) |
| Total at 31 December | 7,799 | 2,664 | 10,708 | 3,769 | 24,940 |

Note: Total number of pensioners receiving pensions and deferred members in the table above include both the CEFPS and the CEPS.

(*) Re-entrants are those members who have re-entered the scheme, having previously ceased to be a member of the scheme.

Pension Increases

The CEFPS rules state that increases will be at the rate of the change in the Retail Prices Index ("RPI") up to 5% in respect of benefits from service prior to 1 January 2008 and RPI up to 3.5% in respect of benefits from service from 1 January 2008 onwards. The change in RPI for the period September to September is the reference period for increases in the CEFPS from 1 April in the following year.

The increase in RPI in the year to 30 September 2022 was 12.6% (2022: 4.9%). Inflation on the Consumer Prices Index measure was 10.1% for the year to 30 September 2022 (2021: 3.1%). Having carefully considered the funding position and other relevant factors, the Trustee decided to award a discretionary increase such that pensions in payment increased by 10.1% from 1 April 2023.

Member benefit augmentation

At the point of retirement, the benefits payable to certain pensioners are enhanced on grounds of ill-health.

Transfers

As prescribed by statutory regulations, all transfer payments were calculated in accordance with the methods and assumptions approved by the Scheme's Actuary. No discretionary benefits are included.

Report on actuarial liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions determined by the Trustee, after following actuarial advice and having consulted with the responsible bodies (see note 1), and set out in the Statement of Funding Principles, which is available to Scheme members on request.

These liabilities are considered by the Scheme's Actuary who carries out a full actuarial valuation of such liabilities every three years. This valuation considers the funding position of the Scheme and the level of contributions payable. The financial statements do not include liabilities in respect of future retirement benefits.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2021. This showed that on that date:

- the value of the Technical Provisions was £2,160 million; and
- the value of the net assets (excluding AVCs) was £2,720 million; and
- the projected value of the surplus on an asset lead funding (ALF) basis was £560 million.

The next valuation is due to be carried as at 31 December 2024. As noted above there has been a significant improvement in the funding of the Scheme.

Trustee's report (continued)

Report on actuarial liabilities (continued)

The method and significant actuarial assumptions used to determine the technical provisions are set out below (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

| | |
|--|---|
| Discount rate | 2.7% p.a. |
| RPI | 3.6% p.a. |
| Pension increases: | |
| Increasing in line with RPI (capped at 5%) | 3.4% p.a. |
| Increasing in line with RPI (capped at 3.5%) | 2.9% p.a. |
| Rate of increase of pensionable stipends | 3.4% p.a. |
| Post-retirement mortality | 90% of the S3NA_LV tables projected from 2020 in line with the CMI 2020 extended model with a long-term annual rate of improvement of 1.5% for both males and females |

The future service contribution rate calculated to be sufficient to meet the increase in the technical provisions arising from the accrual of additional pensionable service over the next year is 38.8% of pensionable stipend. However, given the substantial surplus in the scheme, and taking into account the assessment of the covenant available to the Scheme, the Board has agreed that contributions from January 2023 will be at the rate of 28% of pensionable stipends – i.e., in line with the future service cost calculated using “best estimate” financial assumptions, and deficit contributions were to cease from 1 January 2023. The contribution rates of pensionable stipend were set as shown in the table below:

| | Until 31 March 2022 % | From 1 April 2022 to 31 December 2022 % | From 1 January 2023 % |
|---|-----------------------------|---|-----------------------------|
| Normal contributions | 31.3 | 31.3 | 26.5 |
| Deficit contributions | 7.1 | 3.2 | - |
| Contributions towards administration expenses | *1.5 | *1.5 | *1.5 |
| Total contribution | 39.9 | 36.0 | 28.0 |

* The allowance for expenses is 1.2% for the Church Commissioners and the Dioceses, with additional contributions of 0.3% of pensionable stipends paid to the Board towards the expenses of administering the Church of England Pensions Measures scheme. For the other Responsible Bodies, the allowance for expenses is 1.5% of pensionable stipends less an annual rebate calculated as £70 p.a. per full-time member in active service each 31 December.

Investment management

At the end of 2022, the investments of the Scheme were as set out below. Detailed information on the performance, management and investment risks of the CEIFP is set out in Appendix 2.

| | 2022 £'000 | 2021 £'000 | Nature of investment |
|---------------------------------------|------------------|------------------|--|
| <i>Return seeking investments</i> | | | |
| CEIFP – Public Equity Pool | 747,690 | 1,184,759 | Public equities |
| CEIFP – Diversified Growth Pool | 357,336 | 296,980 | Property unit trusts, private equity and emerging markets sovereign debt |
| CEIFP – Diversified Income Pool | 667,897 | 546,499 | Private infrastructure equity, private debt |
| CEIFP – Liquidity Pool | 7,040 | 83,618 | Cash |
| <i>Liability matching investments</i> | | | |
| CEIFP – Listed Credit Pool | 195,066 | 47,799 | High quality corporate bonds |
| Liability Driven Investments (“LDI”) | 407,857 | 561,588 | Gilts and cash held for reinvestment into gilts |
| AVCs | | | |
| Additional Voluntary Contributions | 35,542 | 37,976 | Unit trusts, see below |
| Total at 31 December | 2,418,428 | 2,759,219 | |

Investment strategy and principles

The Trustee has delegated the responsibility for the management of investments to an Investment Committee, which is supported by professional in-house staff and external investment managers and advisors.

Following the completion of the actuarial valuation and during the course of 2022, the Trustees engaged on further ‘de risking’ of the CEFPs. This involved selling down the equity position and investment into the listed buy and hold credit portfolio. There was a formal review of the liability benchmark portfolio, to incorporate the updated actuarial data, and an increase in the level of interest rate and inflation hedging employed in the liability driven investment portfolio.

Trustee's report (continued)

Investment strategy and principles (continued)

The reduction in equity allocation led to a further consolidation of the equity managers that were employed in the equity pool, with the termination of the emerging market equity mandate with GW&K and the small cap equity mandate with Arrowstreet. Proceeds were used to meet margin and collateral requirements for our FX hedges and LDI portfolios, fund investments in the listed buy and maintain credit portfolio and to help transition the LDI portfolios with BlackRock. Additional commitments were also made into new infrastructure funds in the diversified income pool, with existing infrastructure equity partners Igneo (formerly first state) and Antin.

Completion of the strategic asset allocation review towards the end of 2022, identified the need for further investment into additional forms of listed credit and a phased reduction in the equity and growth pools (containing the property and private equity portfolio). Much of these reductions were achieved towards the end of 2022 and in the early part of 2023.

The Trustee sets the investment strategy for the Scheme after taking advice from the Scheme's Investment Advisor. The Trustee has put in place investment mandates with its investment managers which implement this strategy.

The details of the Trustee's policies with respect to environmental, social and governance matters are included in Appendix 1 and Appendix 1 forms part of the Trustee's Report.

The Implementation Statement included as Appendix 3 discusses the implementation of the Statement of Investment Principles. Appendix 3 forms part of the Trustee's Report.

A Statement of Investment Principles ("SIP") has been prepared for the Scheme by the Trustee. This incorporates the investment strategy and is supported by documents that set out how the investment strategy is implemented. Copies of the SIP may be obtained from the contact details shown at the end of this report. The investment risks and the strategies in place to mitigate them are described in the notes to the financial statements.

The Trustee takes various financially material considerations into account in the selection, retention and realisation of investments. Ethical and responsible investment considerations are central to the Board's work. They reflect our Christian identity and the values of the Board and our beneficiaries, and they inform our aim of achieving a long-term sustainable return on the Board's investments. The Trustee recognises climate change as a major financial and social risk, and one that has potential to impact gravely on the financial well-being of the members of its schemes as well as their quality of life in retirement. Other matters taken into consideration include the risk appetite of the Scheme, strategic asset allocation, opportunities to capture illiquidity premia, diversification within and across asset classes, the potential benefits of active fund management, and the cost of implementation of investment decisions.

The Trustee engages with the sponsors regularly, including on material non-financial matters. The Trustee recognises that the beneficiaries and the sponsors of the Scheme are part of the Church of England and that the Scheme's investments should reflect that as far as possible without compromising its objectives.

Investment managers are appointed based on their capabilities and the perceived likelihood of them meeting the Trustee's return and risk expectations. The manager selection process is designed to ensure that appointments are consistent with the Board's ethical, environmental, social and governance policies. As part of this, the Trustee undertakes due diligence ahead of investing to ensure it is aware of the:

- Underlying assets held and how they will allocate between them;
- Risks associated with the underlying mix of assets and the steps the investment manager takes to mitigate them;
- Expected return targeted by the investment manager and details around realisation of the investment; and
- Impact of financial and non-financial factors, including those outlined in the Ethical and Responsible Investment section, on the investment over the long-term.

Should an investment manager make changes to any of these factors, the Trustee will assess the impact and (where no longer aligned) consider what action to take. The Trustee seeks input from its investment consultant for their forward-looking assessment of the investment managers' abilities to meet their performance objectives over a full market cycle and an assessment of how environmental, social and governance factors are integrated into their investment processes. In addition, the investment team maintains its own independent ESG ratings for the directly appointed listed equity managers. These views assist the Trustee in their ongoing monitoring of the investment managers and are considered when making selection and retention decisions.

Where the Trustee invests via a pooled vehicle (rather than a segregated mandate), it accepts that it has limited ability to specify the investment guidelines, risk profile or return targets of an investment manager. Despite this, the Trustee believes that pooled vehicles can be identified that are aligned with its policies.

The Trustee also values engagement with companies over responsible and ethical investment issues, and it considers that as a more effective means of exercising its stewardship responsibilities than disinvestment in many situations. Company engagement is carried out and monitored for effective change by the Board's investment team. The Trustee regularly reviews the engagement and corporate governance activities of the investment team.

Management and custody of investments

The CEIFP's custody arrangements are described in the CEIFP's Trustee's Report in Appendix 2.

The Scheme holds a portfolio of Gilts outside the CEIFP in its own LDI account. The gross value of the LDI assets is £725.8m (2021: £477.1m), with net repurchase agreements of -£318.8m (2021: £73.3m). An additional £0.8m (2021: £11.2m) is held within the LDI account as cash for reinvestment.

The Trustee has appointed The Northern Trust Company Limited ("Northern Trust") to keep custody of the Scheme's investments, other than pooled investment vehicles ("PIV"), where the manager makes its own arrangements for the custody of underlying investments.

Trustee's report (continued)

Investment performance

Fears that inflation and associated tightening in monetary policy could prompt a recession plagued the financial markets for much of the year. This is reflected in the -12% return on the whole of the scheme's investment assets in 2022. The public equity pool held by the scheme saw negative investment returns of -12.8%, while the listed credit pool recorded -19.3% over the year.

The impact of rising inflation, higher short-term interest rates and the crisis in confidence sparked by the UK mini fiscal statement in September, is most readily seen in the -40.3% return on the Gilts and LDI accounts for 2022.

The property and private equity portfolios in the Diversified Growth (2.9%) and infrastructure, private debt and alternative income and credit portfolios in the Diversified Income portfolio (14.2%), fared better over the course of the year and provided an element of diversification.

Although returns have been somewhat disappointing, the rise in interest rates and bond yields have lowered the value of actuarial liabilities and lead to an improvement in the funding position of the scheme. We have therefore taken the opportunity to reduce our market weighting to higher risk assets in the schemes in favour of a potentially more stable return profile.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and consider them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

Additional Voluntary Contributions ("AVCs")

AVCs are invested separately in vehicles chosen in the light of professional advice with particular regard being given to investment performance and the level of administration costs as well as the financial strength of the provider.

Since 1 April 2011, Legal and General Investment Management ("Legal and General") have been the sole AVC provider for contributions received after this date.

Members are provided a wider range of investment choices with Legal and General:

- a core lifestyle arrangement with two options including ethically invested funds; and
- a menu consisting of a more comprehensive range of UK and global passively managed funds including both UK and global ethically invested funds, balanced equity funds, corporate bond funds, gilts funds, and a cash fund.

At the end of 2022 1,867 members (2021: 1,725) had contributions invested under the voluntary arrangements of whom 1,248 (2021: 1,272) were current contributors.

Employer related investments

Details of employer related investments are given in note 15 to the financial statements.

Further information

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be addressed to:

The Pensions Department
Church of England Pensions Board
PO Box 2026
Pershore
WR10 9BW

Alternatively, enquiries may be made by email to pensions@churchofengland.org, or by telephone to 020 7898 1801.

Approval

The Trustee's Report and Statement of Trustee's Responsibilities set out on page 8 were approved by the Trustee on 13 July 2023 and signed on its behalf by:



Clive Mather
Chairman

Statement of Trustee's Responsibilities

The Church of England Pensions Board is Trustee of The Church of England Funded Pensions Scheme.

Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Independent Auditors' report to the Trustee of The Church of England Funded Pensions Scheme

Opinion

We have audited the financial statements of The Church of England Funded Pension Scheme ('the Scheme') for the year ended 31 December 2022 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or have no realistic alternative but to do so.

Independent Auditors' report to the Trustee of The Church of England Funded Pensions Scheme (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the investment custodian and fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.
- Non-receipt of contributions due to the Scheme from the employers. This is addressed by testing contributions due are paid to the Scheme in accordance with the Schedule of Contributions agreed between the employers and the Trustee.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.



Crowe U.K. LLP

Statutory Auditor

London

Date: 17 July 2023

Fund Account for the year ended 31 December 2022

| | Notes | 2022 £000 | 2021 £000 |
|---|-------|------------------|------------------|
| Contributions and other income | | | |
| Employer contributions | 4 | 69,522 | 76,515 |
| Employee contributions | 4 | 4,342 | 3,693 |
| Transfers in | 4 | 1,200 | 1,472 |
| Other income | 4 | 2,334 | 2,374 |
| Total contributions and other income | | 77,398 | 84,054 |
| Benefits | | | |
| Benefits paid or payable | 5 | (63,883) | (55,772) |
| Transfers out | | (3,090) | (1,284) |
| Administrative expenses | 6 | (3,646) | (2,442) |
| Total benefits and other expenses paid | | (70,619) | (59,498) |
| Net additions from dealings with members | | 6,779 | 24,556 |
| Returns on investments | | | |
| Investment income | 7 | 1,443 | (265) |
| Change in market value of investments | 8 | (342,015) | 325,756 |
| Investment management expenses | | (1,346) | (448) |
| Net returns on investments | | (341,918) | 325,043 |
| Net increase in fund | | (335,139) | 349,599 |
| Opening net assets | | 2,761,258 | 2,411,659 |
| Closing net assets | | 2,426,119 | 2,761,258 |

Notes 1 to 17 form part of these financial statements.

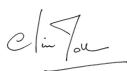
Statement of Net Assets available for benefits as at 31 December 2022

| | Notes | 2022 £000 | 2021 £000 |
|--|-------|------------------|------------------|
| Investment assets | | | |
| Pooled investment vehicles | 8 | 1,975,819 | 2,170,912 |
| Bonds | 8 | 725,811 | 477,100 |
| AVC investments | 8 | 35,542 | 37,976 |
| Cash | 8 | 28,858 | (59) |
| Amounts receivable under reverse repurchase agreements | 8 | 75,023 | 98,871 |
| Total investment assets | | 2,841,053 | 2,784,800 |
| Investment liabilities | | | |
| Amounts payable on repurchase agreements | 8 | (422,625) | (25,581) |
| Total investment liabilities | | (422,625) | (25,581) |
| Total net investments | | 2,418,428 | 2,759,219 |
| Current assets | 9 | 10,870 | 5,255 |
| Current liabilities | 10 | (3,179) | (3,216) |
| Net current assets | | 7,691 | 2,039 |
| Total net assets available for benefits | | 2,426,119 | 2,761,258 |

The financial statements summarise the transactions of the Scheme and deal with the net assets available for benefits at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Scheme, which does take into account such obligations, is described in the report on actuarial liabilities on page 5, and these financial statements should be read in conjunction with this report.

Notes 1 to 17 form part of these financial statements.

These financial statements were approved by the Trustee on 13 July 2023 and signed on its behalf by:



Clive Mather
Chairman

Notes to the financial statements

1. Legal status

The Church of England Funded Pensions Scheme (the “Scheme”) is an occupational pension scheme established under trust. The Scheme was established in accordance with the Pensions Measure 1997 to provide retirement benefits to the clergy and others in the stipendiary ministry.

Many clergy (e.g., parish priests) are office holders rather than employees so those organisations responsible for paying their stipends and pension contributions are known as ‘responsible bodies’. For consistency with the Pensions SORP and comparability with the financial statements of other pension schemes, these financial statements use the term ‘employer’ for both actual employers as well as for the ‘responsible bodies’. Likewise, the term ‘employee’ in these financial statements means actual employees as well as office holders and other stipendiary clergy who are members of the Scheme.

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

2. Basis of preparation

The individual financial statements of the Scheme have been prepared on a going concern basis in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland the Church of England Funded Pensions Scheme issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice “Financial Reports of Pension Schemes (2018)” (the “SORP”).

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Contributions

Employer contributions, which consist of both normal and deficit contributions, and administration costs are accounted for on the accruals basis in the payroll month to which they relate.

Employer contributions towards supplementary pension payments are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, when received.

Employee contributions for AVCs are accounted for on the accruals basis in the payroll month to which they relate.

b) Benefits

Where members can choose whether to take their benefits as a full pension or a lump sum with reduced pension, retirement benefits are accounted for on the accruals basis on the later of the date of retirement and the date the option is exercised.

Pensions in payment are accounted for in the period to which they relate. Other benefits are accounted for on the accruals basis on the date of retirement, death or leaving the Scheme, as appropriate.

c) Transfers to/from other pension schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers, or payable to the pension schemes of new employers for members who have left the Scheme. They are accounted for on the accruals basis, which is generally when funds are transferred unless the Trustee of the receiving scheme have agreed to accept the liability in advance of receipt of funds.

d) Administrative and other expenses

Administrative and investment management expenses are accounted for on the accruals basis.

e) Investment income and expenditure

Most of the Scheme’s investments are units in the Church of England Investment Fund for Pensions (“CEIFP”), which is an accumulation fund. The CEIFP’s net investment income, after paying management and transaction fees is retained within the fund for reinvestment. The value of the Scheme’s holding in CEIFP units consequently is affected by the change in market value of investments, comprising all profits and losses realised on sales of investments and unrealised changes in market value, income and expenditure.

The Scheme’s AVC investments are also in accumulation funds, which do not pay out investment income.

Investment income

Income from equities and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/interest. Income from bonds, cash and short term deposits is accounted for on the accruals basis and includes income bought and sold on purchases and sales of bonds. Income is shown gross of all withholding taxes, with irrecoverable taxes shown as a separate expense.

Investment expenditure

Transactions costs are included in the cost of purchases and sales proceeds. These include commissions, stamp duty and other fees.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Investment valuation

The Scheme values its units in the CEIFP at the unit prices for the pools provided by the custodian Northern Trust. These prices are calculated using the number of units held and the fair value of the CEIFP's underlying investment assets and liabilities. Where separate bid and offer prices are available for the underlying investment assets and liabilities, the bid price is used for investment assets and offer prices for investment liabilities. Otherwise the closing single price or most recent transaction price is used.

The AVC investments are valued based on prices reported by the AVC providers.

Investment assets and liabilities are measured at fair value. Where an active market is unavailable, the Trustee adopts valuation techniques appropriate to the class of investments. The methods for determining fair value for the principal classes of investments are:

Pooled investment vehicles

Unitised investment vehicles which are not traded on an active market are estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation. The net asset value is determined by the fund manager by applying fair value principles to the underlying investments of the pooled arrangement.

Bonds

Bonds are included at the 'clean' price i.e. excluding any accrued income. Any accrued income is included in other investment balances

The change in market value of investments recognised in the fund account during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

g) Repurchase agreements

Under repurchase (repo) agreements - the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the Financial Statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability. Cash delivered under reverse repurchase contracts is recognised as an investment receivable in the financial statements. Securities received in exchange are not included as scheme assets.

h) Foreign currencies

The Scheme's functional currency and presentational currency is pounds sterling.

4. Contributions and other income

| | 2022 £000 | 2021 £000 |
|--|---------------|---------------|
| Employer contributions | | |
| Normal | 61,039 | 61,909 |
| Deficit | 8,169 | 14,091 |
| Augmentations | 235 | 479 |
| Other | 79 | 36 |
| Total employer contributions | 69,522 | 76,515 |
| Employee contributions | | |
| AVC | 4,342 | 3,693 |
| Total employee contributions | 4,342 | 3,693 |
| Transfers in | | |
| Individual transfers in from other schemes | 1,200 | 1,472 |
| | 1,200 | 1,472 |
| Other income | | |
| Contribution for administration costs | 2,334 | 2,374 |
| | 2,334 | 2,374 |

Notes to the financial statements (continued)

4. Contributions and other income (continued)

Following the actuarial valuation as at 31 December 2021, the contribution rates of pensionable stipend were set as shown in the table below:

| | Until 31 March 2022 % | From 1 April 2022 to 31 December 2022 % | From 1 January 2023 % |
|---|-----------------------------|---|-----------------------------|
| Normal contributions | 31.3 | 31.3 | 26.5 |
| Deficit contributions | 7.1 | 3.2 | - |
| Contributions towards administration expenses | *1.5 | *1.5 | *1.5 |
| Total contribution | 39.9 | 36.0 | 28.0 |

* The allowance for expenses is 1.2% for the Church Commissioners and the Dioceses, with additional contributions of 0.3% of pensionable stipends paid to the Board towards the expenses of administering the Church of England Pensions Measures scheme. For the other Responsible Bodies, the allowance for expenses is 1.5% of pensionable stipends less an annual rebate calculated as £70 p.a. per full-time member in active service each 31 December.

5. Benefits paid or payable

| | 2022 £000 | 2021 £000 |
|-------------------------|----------------------------|----------------------------|
| Benefits | | |
| Pensions | 43,029 | 39,109 |
| Retirement lump sums | 19,925 | 15,621 |
| Lump sum death benefits | 886 | 992 |
| Commutations | 43 | 50 |
| Total benefits | 63,883 | 55,772 |

6. Administrative expenses

All costs relating to the administration of the Scheme are paid by the Board in the first instance and recovered from the Scheme by way of an administration charge. This covers professional fees, staff costs and shared service costs. A breakdown of the costs is shown below:

| | 2022 £000 | 2021 £000 |
|--------------------------------------|----------------------------|----------------------------|
| Actuarial fees | 657 | 444 |
| Audit fees | 48 | 43 |
| Pension levy | 168 | 128 |
| Investment services | 1,989 | 1,534 |
| Legal advice | 38 | 195 |
| Administration costs | 1,789 | 1,384 |
| VAT rebate | (1,043) | (1,286) |
| Total administrative expenses | 3,646 | 2,442 |

The VAT rebate is the Scheme's share of the VAT reclaimed by the Trustee on fees relating to the administration and investment activities carried out by the Trustee on behalf of the Schemes to which it acts as trustee.

7. Investment income

| | 2022 £000 | 2021 £000 |
|--|----------------------------|----------------------------|
| Bonds | 5,135 | 558 |
| Deposit interest | 3 | 2 |
| Amounts payable on repurchase agreements | (3,695) | (825) |
| Total net investment income | 1,443 | (265) |

Notes to the financial statements (continued)

8. Investments

Repurchase agreements

At the year-end, amounts payable under repurchase agreements amounted to £422.6m (2021: £25.6m) and amounts receivable under reverse repurchase agreements amounted to £75.0m (2021: £98.9m). Within Bonds reported in Scheme assets, £374.1m (2021: £26.02m) are held by counterparties under repurchase agreements. Bonds with value of £7.4m (2021: £197k) are held under reverse repurchase agreements. There is collateral posted with a value of £13.7m at 31 December 2022 which is comprised of £17.3m pledged to counterparties and £3.6m pledged from counterparties.

Transaction expenses

The Scheme did not directly incur transaction costs. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustees to quantify such indirect transaction costs.

The Scheme incurred £399,000 (2021: £426,000) in fees from Blackrock and £946,000 (2021: £1,476,000) in relation to specific repurchase activity. Custody charges are negligible.

The Scheme's directly held investments are registered in the UK. The Church of England Investment Fund for Pensions ("CEIFP") is a pooled investment vehicle between three pension schemes of which the Church of England Pensions Board is Trustee.

During the year the Trustees continued to sell down holding in the public equity pool so as to lower market risk. The emerging market equity mandate with GW&K and the small cap equity mandate with Arrowstreet were terminated in the CEIFP and the proceeds were used to both meet margin and collateral requirements on FX hedges and LDI portfolios, and fund further investment in the Listed Credit pool. Additional commitments were also made into new infrastructure funds with Igneo and Antin in the Diversified Income pool of the CEIFP.

The table below shows the movement in investments in the year:

| | At 1 January £000 | Purchases at cost £000 | Sales proceeds £000 | Change in market value £000 | At 31 December £000 |
|---|-------------------------|------------------------------|---------------------------|-----------------------------------|---------------------------|
| Pooled investment vehicles (CEIFP) | | | | | |
| Public equity pool | 1,184,759 | 37,334 | (317,028) | (157,375) | 747,690 |
| Diversified growth pool | 296,980 | 53,968 | - | 6,388 | 357,336 |
| Diversified income pool | 546,499 | 48,821 | (7,003) | 79,580 | 667,897 |
| Listed credit pool | 47,799 | 177,845 | (15,556) | (15,022) | 195,066 |
| Liquidity pool | 83,618 | 302,928 | (379,611) | 105 | 7,040 |
| Total pooled investment vehicles (CEIFP) | 2,159,655 | 620,896 | (719,198) | (86,324) | 1,975,029 |
| Pooled investment vehicles (cash) | 11,257 | 108,757 | (119,224) | - | 790 |
| Bonds | 477,100 | 615,625 | (112,969) | (253,945) | 725,811 |
| AVC investments | | | | | |
| Legal & General Group AVC scheme | 33,008 | 5,162 | (5,492) | (1,372) | 31,306 |
| Re-assure Company sponsored | 3,198 | - | (115) | (439) | 2,644 |
| Prudential | 1,770 | - | (243) | 65 | 1,592 |
| Total AVC investments | 37,976 | 5,162 | (5,850) | (1,746) | 35,542 |
| | 2,685,988 | 1,350,440 | (957,241) | (342,015) | 2,737,172 |
| Cash | (59) | | | | 28,858 |
| Amounts receivable on reverse repurchase agreements | 98,871 | | | | 75,023 |
| Amounts payable on repurchase agreements | (25,581) | | | | (422,625) |
| Total net investments | 2,759,219 | | | (342,015) | 2,418,428 |

9. Current assets

| | 2022 £000 | 2021 £000 |
|------------------------|--------------|--------------|
| Debtors | | |
| Employer contributions | 5,981 | 26 |
| Inter scheme debtor | 2,300 | - |
| Trustee | - | 214 |
| Other debtors | 119 | 333 |
| Total debtors | 8,400 | 573 |
| Cash | 2,470 | 4,682 |
| Total current assets | 10,870 | 5,255 |

Amounts owed from the Trustee represent money paid in advance to the Board towards the administrative expenses the Board incurs on the Scheme's behalf (see note 6). All contributions due to the scheme relate to the month of December 2022 and were paid in full to the scheme within the timescale required by the schedule of contributions currently in force.

Notes to the financial statements (continued)

10. Current liabilities

| | 2022 £000 | 2021 £000 |
|----------------------------------|--------------|--------------|
| Unpaid benefits | 720 | 913 |
| Tax payable – PAYE and NI | 1,918 | 1,737 |
| Other creditors | 541 | 566 |
| Total current liabilities | 3,179 | 3,216 |

11. Fair value of investments

The fair value of investments has been determined using the following fair value hierarchy:

| Level | Description |
|-------|---|
| 1 | Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date. |
| 2 | Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly. |
| 3 | Inputs are unobservable, i.e. for which market data is unavailable. |

The Scheme's investment assets and liabilities have been included at 31 December at fair value within these levels as follows. The CEIFP's fair value hierarchy is that of the underlying assets held by the Scheme.

| | 1 £000 | 2 £000 | 3 £000 | Total £000 |
|---|----------------|----------------|----------------|------------------|
| At 31 December 2022 | | | | |
| Pooled investment vehicles | 847,857 | 240,823 | 887,139 | 1,975,819 |
| Bonds | - | 725,811 | - | 725,811 |
| AVC investments | - | 34,568 | 974 | 35,542 |
| Cash and cash equivalents | 28,858 | - | - | 28,858 |
| Amounts receivable on reverse repurchase agreements | - | 75,023 | - | 75,023 |
| Amounts payable on repurchase agreements | - | (422,625) | - | (422,625) |
| Total investments | 876,715 | 653,600 | 888,113 | 2,418,428 |

| | 1 £000 | 2 £000 | 3 £000 | Total £000 |
|---|------------------|----------------|----------------|------------------|
| At 31 December 2021 | | | | |
| Pooled investment vehicles | 1,313,756 | 115,328 | 741,828 | 2,170,912 |
| Bonds | - | 477,100 | - | 477,100 |
| AVC investments | - | 36,282 | 1,694 | 37,976 |
| Cash and cash equivalents | (59) | - | - | (59) |
| Amounts receivable on reverse repurchase agreements | - | 98,871 | - | 98,871 |
| Amounts payable on repurchase agreements | - | (25,581) | - | (25,581) |
| Total investments | 1,313,697 | 702,000 | 743,522 | 2,759,219 |

Pooled investment vehicles includes the fair value levels of the underlying investments in the Church of England Investment Fund for Pensions. For more details, see Appendix 2, Note 9.

Notes to the financial statements (continued)

12. Investment risk disclosures

The investment objective of the Scheme is to maintain an investment portfolio with appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The Trustee sets the investment strategy for the Scheme as detailed in the Statement of Investment Principles (SIP).

The table below summarises the extent to which the various classes of investments are affected by financial risks:

| | Credit risk | Market risk | | | Total 2022 £000 | Total 2021 £000 |
|---|--|-------------|---------------|-------------|-----------------------|-----------------------|
| | | Currency | Interest rate | Other price | | |
| Pooled investment vehicles (CEIFP) | (see Investment Risks for the CEIFP in Appendix 2) | | | | 1,975,029 | 2,159,655 |
| Pooled investment vehicles (cash) | ● | ○ | ○ | ○ | 790 | 11,257 |
| Bonds | ● | ○ | ● | ○ | 725,811 | 477,100 |
| Total LDI investment | | | | | 2,701,630 | 2,648,012 |
| AVCs | (not considered significant in relation to overall Scheme risks) | | | | 35,542 | 37,976 |
| Cash and cash equivalents | ● | ○ | ○ | ○ | 28,858 | (59) |
| Amounts receivable on reverse repurchase agreements | ○ | ○ | ● | ● | 75,023 | 98,871 |
| Amounts repayable on repurchase agreements | ○ | ○ | ● | ● | (422,625) | (25,581) |
| Total investments | | | | | 2,418,428 | 2,759,219 |

In the table above, the risk noted affects the asset class [●] significantly, [○] partially or [○] hardly / not at all.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described below which is determined after taking advice from professional investment advisors. The Trustee manages investment risks, including credit and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives for its directly held investments and through the CEIFP for its pooled CEIFP investments.

These investment objectives and risk limits for directly held investments are implemented through the investment management agreement in place with the Scheme's investment managers. The agreement sets out the guidelines for the underlying investments held and the day to day management is the responsibility of the manager, including direct management of credit and market risks.

The Trustee monitors the investment manager through day to day monitoring of the portfolio, quarterly written updates from the manager and annual meetings. In addition, the Trustee performs due diligence procedures before taking on a new investment manager and the Trustee's Investment Consultant also independently assesses and monitors the fund managers.

Investment strategy

The split between return seeking and liability matching assets is determined by the characteristics of the Scheme, in particular its demographic profile, the spread of time over which its liabilities fall due, its funding level and the appetite for risk of the Trustee and the Scheme's sponsors.

Most of the liability matching investments are held in a separate LDI account, which is constructed to reflect the profile of future expected beneficiary payments. A small proportion of the liability matching investments remain in the CEIFP in the Listed Credit portfolio. All of the return seeking investments continue to be held wholly within the CEIFP.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk through its investments in bonds, repurchase agreements, short term borrowings and cash balances. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

Notes to the financial statements (continued)

12. Investment risk disclosures (continued)

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which at the time of purchased are rated at least investment grade.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors the investment managers through assessing investment performance, as reported by the custodian, and meeting with the manager annually.

A summary of pooled investment vehicles by type of arrangement is as follows:

| | 2022 | 2021 |
|----------------------------------|-----------|-----------|
| | £000 | £000 |
| UCITS | 790 | 11,257 |
| Common Investment Fund | 1,975,029 | 2,159,655 |
| Total pooled investment vehicles | 1,975,819 | 2,170,912 |

Cash is held with financial institutions which are at least investment grade credit rated.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets in the CEIFP. The Trustee has decided to partly mitigate this risk by using a currency hedging strategy of roughly half the exposure to the USD, Japanese Yen and Euro equities, and all the US Dollar exposure of private debt, using forward currency contracts.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

The Scheme is subject to interest rate risk due to its bond holdings in the Listed Credit pool in the CEIFP and Liability Driven Investment (LDI) portfolio and because the discount rate used to measure the Scheme's actuarial liabilities is in part derived from prevailing interest rates.

If interest rates and bond yields fall, the market value of the bonds will rise, while if interest rates rise the values of bonds will fall. Changes in interest rates can also influence the value of the actuarial value of the liabilities of the schemes. The increase in value of bonds that arises from a fall in bond yields will often help to 'match' the increase in actuarial liabilities arising from a fall in discount rate. Similarly, if interest rates rise the values of the bonds will fall (as they did in 2022), this will often match the decline in the actuarial liabilities because of an increase in discount rate being applied to the liabilities.

As we have noted in the Trustee report, UK Gilt yields rose sharply at the end of September on market concerns over the scale of unfunded tax cuts announced during the UK government mini-fiscal statement. The scale and speed of the rise in Gilt yields between 23-to-27 September 2022 caused many pension funds to have to sell investments in order to meet the collateral requirements of the LDI strategies that they were employing, which led in turn to further sales of Gilts and yields rising further. Although the schemes managed by the Trustees have LDI strategies, they did not have to undertake such extraordinary measures to meet their collateral requirements. The Pension Regulator (TPR) has since announced new guidance measures for such LDI strategies, and the Trustees will continue to adopt a prudent approach in the LDI strategies it employs in the schemes to ensure that these measures continue to be met.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme's return seeking portfolio is subject to price risk which principally relates to direct and indirect equity holdings, infrastructure equity and investment in property in the CEIFP. The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Investment risk in relation to AVC investments

Investment risk relating to the AVC investments is not considered to be significant in relation to the overall investment risks of the Scheme.

Notes to the financial statements (continued)

13. Concentration of investments

The following investments account for more than 5% of the Scheme's net assets at the year end:

| | 2022 | | 2021 | |
|--------------------------------------|---------|------|-----------|------|
| | £000 | % | £000 | % |
| CEIFP public equity pool | 747,690 | 30.8 | 1,184,759 | 42.9 |
| CEIFP diversified growth pool | 357,336 | 14.7 | 296,980 | 10.8 |
| CEIFP diversified income pool | 667,897 | 8.0 | 546,499 | 19.8 |
| UK Treasury 0.125% 2029 Index Linked | 141,194 | 5.8 | 156,338 | 5.7 |
| UK Treasury 0.125% 2058 Index Linked | - | - | 162,687 | 5.9 |

14. AVC investments

AVCs are invested separately from the main defined benefit investments to secure additional benefits on a money purchase basis for those members electing to pay AVCs. Most AVCs are invested in a Group AVC Scheme with Legal and General Investment Management which provides wide investment choice and a single administration platform. The value of this AVC arrangement is £31,306,000 (2021: £33,008,000). Prior to this, AVC contributions were invested with Prudential and another Legal & General fund in with-profits investments totalling £4,236,000 at 31 December 2022 (2021: £4,968,000).

15. Employer related investments

There were no employer-related investments at the year end except for £5,981,000 (2021: £26,000) employer contributions, which represent 2.5% (2021: 0.009%) of total net assets (see Note 9).

16. Related party transactions

One Board member (2021: none) has retired from service under the Scheme and is in a receipt of a pension on normal terms.

As disclosed in note 9, £Nil is owed by the Trustee to the Scheme (2021: £214,000 owed by the Scheme to the Trustee), representing money charged by the Board in advance towards the administrative expenses the Board incurs on the Scheme's behalf (see note 6).

17. Guaranteed Minimum Pension equalisation

In October 2018, the High Court determined that Guaranteed Minimum Pension benefits provided to members who had contracted out of the State Earnings Related Pension Scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. Additionally, in November 2020, the High Court determined that Guaranteed Minimum Pension shortfalls also apply to past transfers. The Trustee is reviewing, with their advisors, the implication of these rulings on the Scheme and the equalisation of guaranteed minimum pensions, between men and women in the context of the rules of the Scheme and the value of any liability. When this review is finalised and any liability quantified, members will receive further communication and any impact on financial reporting will be considered by the Trustee. The Trustee has estimated the total cost of equalisation to be £0.5m. The financial statements do not include a liability due to the immateriality of the total estimated costs.

Actuary's certification of schedule of contributions



Actuary's certification of schedule of contributions

Church of England Funded Pensions Scheme

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Church of England Funded Pensions Scheme**

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that:

the statutory funding objective could have been expected on 31 December 2018 to be met by the end of the period specified in the recovery plan dated 28 March 2022.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 March 2022.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature:

Date: 28 March 2022

Name: *Aaron Punwani*
Appointed Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

About Lane Clark & Peacock LLP

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Appendix 1

Ethical Investment Approach of the Church of England Pensions Board

The Church of England has three National Investing Bodies (NIBs): the Church of England Pensions Board, the Church Commissioners for England and the CBF Church of England Funds. The NIBs are asset owners who invest on behalf of many beneficiaries. The way in which they invest forms part of the Church of England's witness and mission.

The NIBs receive Advice and support on ethical investment from the Church's Ethical Investment Advisory Group (EIAG). The purpose of the EIAG is to enable the NIBs to act as distinctively Christian – and Anglican – institutional investors. The EIAG develops ethical investment advice, and the NIBs develop investment policies based on this advice. EIAG advice and NIB policies are published on the Church of England website and implemented by the NIBs.

The EIAG consists of a representative of each NIB, and six independent members appointed by the Nominations Committee of the EIAG (which itself includes representatives of General Synod, the Archbishops' Council, the Mission and Public Affairs Council, the Church Investors Group and the NIBs).

The EIAG is supported by a small Secretariat hosted by the Pensions Board and jointly funded by the NIBs. Formal responsibility for all investment decisions rests solely with the NIBs. The Pensions Board has also resourced its own Responsible Investment function within and integrated into its Investment Team to implement the Board's approach to stewardship which embraces various stewardship strategies and priorities, engagement and investment exclusions.

Stewardship

The NIBs operate within the legal framework for investment by charities and pension funds. They owe certain fiduciary and other duties to their beneficiaries. Christian stewardship provides the context within which the NIBs invest, and informs the manner in which these duties are performed. The Pensions Board has published a Stewardship Report 2022 [available [here](#)] which has been submitted to the FRC, in accordance with the FRC Stewardship Code 2020. In 2021 and 2022 the FRC accepted the Board's Stewardship Reporting, and the Board has been a signatory to the Stewardship Code since the first cohort of signatories. The Code encourages institutional investors to act as good stewards of their investments through active ownership (monitoring, engagement and voting).

The NIBs are signatories to the United Nations Principles for Responsible Investment (PRI) under which institutional investors pledge to incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes, and to be active owners, across all asset classes.

The NIBs recognise climate change as a distinct ethical investment issue and invest in line with a climate change policy. The Board has also published a TCFD report [available [here](#)] for the Clergy scheme (CEFPS), which also contains relevant information for the Board's other schemes.

The Pensions Board has developed a Stewardship Implementation Framework that guides its active ownership practices, including its approach to engaging with asset managers.

Engagement

The Pensions Board's investment team includes ethical and responsible investment specialists, who undertake engagement with companies in which the Board is invested, including voting at shareholder meetings.

In general, the NIBs expect companies in which they invest to pay proper attention to human rights, responsible employment practices, sustainable environmental practice, fair treatment of customers and suppliers, sensitivity towards the communities in which they operate and best corporate governance practice (as outlined in the Statement of Ethical Investment). The engagement team engages with investee companies to seek improvements in standards in these areas, and other areas defined by the suite of ethical investment policies.

Policies adopted by the NIBs are listed on the EIAG website and they include specific policies on Executive Remuneration, Business and Engagement, Climate Change and Extractive Industries, among others.

Investment exclusions

The NIBs do not wish directly to profit from, or provide capital to, activities that are materially inconsistent with Christian values, and are also mindful of the danger of undermining the credibility, effectiveness and unity of the Church's witness were they to do so. A range of investment exclusions based on their ethical investment policies is therefore maintained and updated quarterly to reflect changes in markets.

Individual company engagements may exceptionally lead to a recommendation to Trustee Committees to implement a specific exclusion in any line of business on ethical grounds. Such recommendations and exclusions will normally only occur after sustained dialogue and if the company does not respond positively to concerns about its practices. In such cases the NIBs will determine individually whether to disinvest if they hold securities issued by the company. The NIBs expect a recognition of responsibility and action within a clear timescale to improve, rather than perfection.

Ethical Investment Approach of the National Church Institutions

Ethical Investment

The way the NIBs invest forms part of the Church of England's witness and mission and their ethical policies and practice are shaped by expert advice from the Church's Ethical Investment Advisory Group (EIAG).

When investing, and based on the advice of the EIAG, the Board applies exclusions to companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, and high interest rate lending. Details of all of the policies are available on the EIAG's webpages. As a result of the Climate Change Policy a screen has been introduced that excludes companies that derive more than 10% of their total revenue from mining thermal coal and the production of oil from tar sands.

However, ethical investment is also about in what and how the Board invests. It is for this reason the Pensions Board's approach is to:

- Take a long-term view.
- Select investment managers who are able to analyse and act on the environmental, social and governance issues relevant to their strategies.
- Act as good stewards of its investments including through voting at company general meetings and engaging actively with companies in which the Board invests.
- Promote ethical behaviour, corporate responsibility and sustainability in interactions with investment managers, companies and government.

Implementation of ethical investment policies

The Board has published its Implementation Statement in Appendix 3, showing how the Board has implemented the Scheme's Statement of Investment principles, including in respect to stewardship and engagement matters.

2022 highlights

The Board has published a full Stewardship Report for 2022 on its website, which is designed to provide an accessible account of the Board's stewardship activity, record significant votes, and the FRC Stewardship Code. A separate report aligned to the Taskforce on Climate Related Financial Disclosure (TCFD) has been published for the Clergy scheme (CEFPS, available [here](#)), which also contains detail relevant to the Board's other schemes. Key highlights in 2022 are shown below. For more details, please see the information provided in the Stewardship Report.

The Board has prioritised Climate Change and stewardship with the mining industry. Together with the Environment Agency's pension scheme, the London School of Economics and FTSE Russell, the Board established the Transition Pathway Initiative (TPI) in 2017, and the Board continues to act as Chair of TPI. The TPI provides a tool that allows asset owners and investors to monitor the public disclosures made by companies and to assess how they are aligned with the goals of the Paris climate agreement. The extraordinary success of the TPI continues. It has grown to be supported by 134 funds with over \$50trn in assets under management (AUM). TPI provides data for the world's largest investor engagement initiative (Climate Action 100+), and is supporting the development of the ASCOR project (Assessing Sovereign Climate Opportunities and Risks), which the Board co-Chairs.

Within Europe we are active in the Institutional Investors Group on Climate Change (IIGCC) (we hold a Board seat), and the US\$68trn backed Climate Action 100+ (CA100+). CA100+ is the global climate engagement initiative supported by 700 different investors that targets the world's 167 most carbon-intensive companies. This group of companies alone is estimated to represent some 80% of the industrial carbon emissions of companies listed on the global stock markets. The Board continues to lead engagements with target companies on behalf of the broader CA100+ coalition, in particular European automotive manufacturers.

Together with IIGCC and TPI, more than 20 leading global investors with collective assets of \$10.4trn have led the engagement with leading oil and gas companies – including BP, Shell and TotalEnergies – to inform the creation of the first Net Zero Standard for the oil and gas sector. The Pensions Board chaired the process to develop the Standard, which stresses the need for comprehensive absolute and intensity emissions targets (covering all material emissions), as well as alignment of capital expenditure and production plans with a net zero target. It acknowledges “winding-down” as a legitimate strategy, as well as diversifying energy offerings or working through a company's value chain to reshape demand. Provisional indicators were published in September 2021 for consultation during 2022. The Net Zero Standard (published in April 2023) outlines the actions that oil and gas companies should be taking and how they should be reporting on those actions so that investors have a level playing field to evaluate their progress effectively.

In January 2019, in response to the tragic failure of a tailings storage facility at Brumadinho, Brazil, that claimed the lives of 270 people, the Pensions Board issued a call for there to be a global standard and classification system for tailings facilities. Since 2019, the Board and the Council on Ethics of the Swedish Public Pension Funds have acted on behalf of the Principles for Responsible Investment (PRI) as co-convenors of a Global Tailings Review. In this, we have worked alongside the International Council on Mining and Metals (ICMM) and the UN Environment Programme. This Review commissioned the development of a Global Industry Standard on Tailings Management under an independent chair and expert panel. August 2020 saw the launch of a Global Industry Standard on Tailings Management at an online event attended by 2,000 participants. In 2022 and via corporate engagement, we secured commitments from 129 mining companies to adopt or scope the adoption of the GISTM. In 2022 we voted against the Chairs of any mining company that had not committed to adopting the GISTM or review its adoption. In relation to institutional support for the GISTM, in 2022 we partnered with the UN Environment Programme to employ a senior consultant and convene a multistakeholder advisory council to develop the Global Tailings Management Institute. During 2022, this group met a number of times and delivered its report on the proposed Global Tailings Management Institute, including its terms of reference, organisational objectives, operating models/plans, and funding. We hope and expect to report further progress on this topic in 2023, as we continue to work to drive safety across the mining industry.

Our Stewardship Report contains details of other engagements: on corporate climate lobbying, promoting diversity in the finance sector and wider economy, on transition finance for emerging economies, executive pay, among others.

The Board has outlined a range of future priorities of the stewardship team. This is not an exhaustive list of all of the planned engagement activities to be undertaken in the interests of our members (and their employers as scheme funders), but it outlines significant developments for the Board's work on stewardship.

For further details please see the Stewardship Report 2021 on the Board's website.

- Develop the first framework to assess government sovereign bonds on climate criteria through the ASCOR project
- Convene the Global Investor Commission on Mining 2030 to address issues that strategically challenge the mining sector and its social license, through a multistakeholder and consultative process.
- Establish, together with the UN, an independent Global Institute to support the implementation of the Global Industry Standard on Tailings Management.
- Advocate for and conduct climate engagement (for example, through CA100+) to address the demand side of the transition, focussing particularly on the European automotive sector.
- Undertake a 'deep dive' into systemic risk and systemic stewardship.
- Develop an engagement programme following the publication of Advice from the EIAG on Big Tech.

Appendix 2

The Church of England Investment Fund for Pensions

Annual Report and Financial Statements

31 December 2022

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Trustee's report

The Church of England Pensions Board (the "Board"), as Trustee of The Church of England Investment Fund for Pensions ("CEIFP", or the "Fund") is pleased to present its annual report for the year ended 31 December 2022.

Scheme constitution and management

The Fund was originally established in 1985 as a common investment fund for pension schemes administered by the Trustee. It is not a pension scheme nor a corporate body in its own right, but is a vehicle to pool the investments of the Board's three pension schemes (the "schemes") in order to diversify the schemes' investments, particularly for the smaller schemes which would not be able to benefit from the breadth of investments available when the assets are pooled. It is a bare trust that operates under a Trust Deed between the member schemes:

- The Church of England Funded Pensions Scheme ("CEFPS");
- Church Workers Pension Fund ("CWPF"); and
- Church Administrators Pension Fund ("CAPF").

The Board as Trustee is responsible for setting the overall strategy and managing the schemes. The Board has established various committees to assist it in this responsibility.

The CEIFP has five pools: the public equity pool containing mostly listed equities, the diversified growth pool containing mostly property and private equity assets, the diversified income pool containing mostly private loans and infrastructure assets, the listed credit pool containing corporate bonds, and the liquidity pool containing cash.

Each pool has different risk and return characteristics, which enables each pension scheme to be able to invest in the pools in proportions that match its maturity and cash flow needs.

Unitisation

The pools are unitised, where each investing pension scheme is allocated a number of units, according to the amount it has invested. The number of units and value of the units is recalculated on a monthly basis to reflect the changing fair value of the underlying net assets, and the investment or disinvestment of each scheme.

Commentary on each scheme's strategy in holding different proportions of return seeking and liability matching units can be found in their respective annual reports.

Commentary on the performance of these pools is set out in this report. Further information on investment strategy and risk is shown in the notes to the financial statements.

Financial developments

If 2021 was marked by high returns across most markets and asset classes, 2022 could not have been more of a contrast. It was always going to be a challenging market environment, as governments and central banks removed their support to pandemic afflicted economies, but the Russian invasion of Ukraine and the resulting energy crisis added to inflationary pressures and led to a marked increase in interest rates in most major economies. This had an adverse impact on equity markets and fixed income and credit markets, providing few places where investors could make positive returns.

Although the schemes Liability Driven Investment (LDI) portfolios are actually held outside the CEIFP, the UK government 'Gilt' edged securities that the LDI portfolios were invested in were one of the worst performing asset classes in headline terms in 2022. This is because as the yields on these 'Gilt' edge securities rose sharply, in response to the crisis in confidence sparked by the UK mini fiscal statement in September 2022, the value of these Gilt edged securities fell sharply. While this has reduced the market value of the schemes' gilt holdings, scheme liabilities (or the lifetime cost of paying pensions) are in large part measured with reference to these gilt yields. The rise in gilt yields reduces the expected future cost of providing pensions, helping with funding levels. As the schemes mature, with more pensions in payment, these funding levels become a very important measure of scheme security.

Market sentiment continues to be dominated by the outlook for inflation and whether central banks will have to raise interest rates to a level that could ultimately lead to a global recession. Early indications that inflation may have peaked, an end of China's zero-COVID policy and bounce in both the local and broader Asian economies, have provided some encouraging signs to the start of 2023 that such a recession may yet be avoided. However, geopolitical uncertainties remain and predicting the near-term performance of markets remains as difficult as ever.

This is why we invest for the long-term and hold a well-diversified portfolio. This approach to investment and strong and sustained returns over time have driven improvements in the funding level of the pension schemes.

Strategic Asset Allocation and Composition of the Church of England Investment Fund for Pensions (CEIFP)

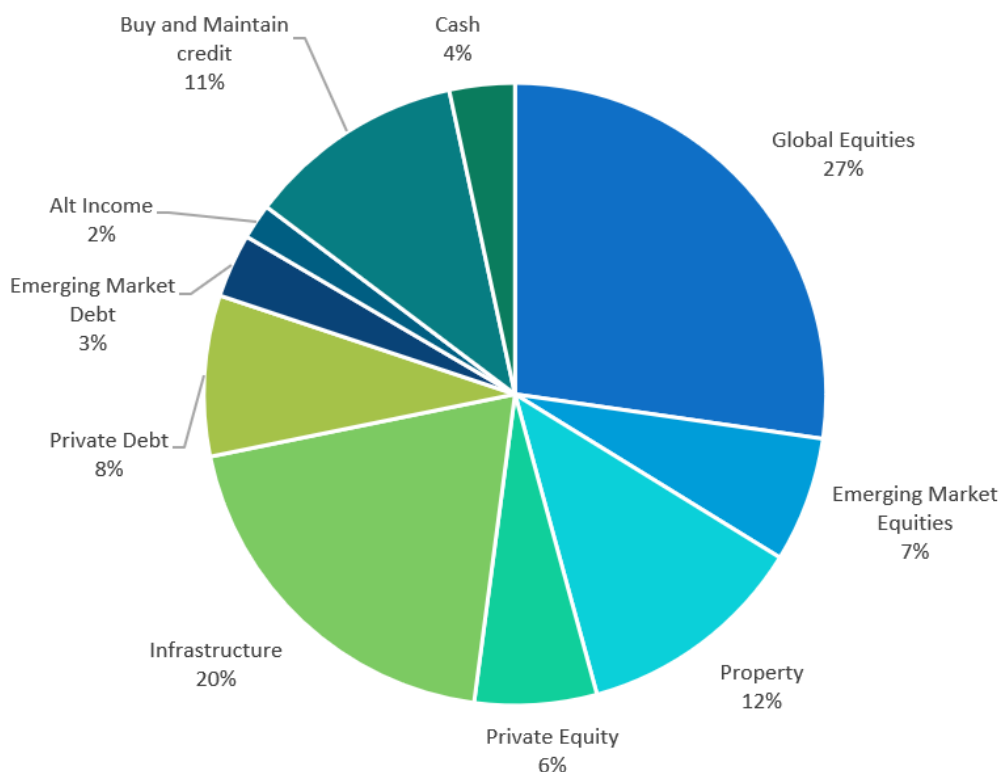
We pool most of the individual pension scheme assets for investment purposes in the CEIFP. This allows our smaller schemes to access economies of scale and investment opportunities that might not be available to them otherwise.

The key exception to this is the Liability Driven Investment (LDI) portfolios for each of the schemes (which sit outside of the CEIFP) and allow the schemes to take explicit account of the maturity and interest and inflation sensitivity of their specific liability profiles.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Fund's investments and considers them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

Total Assets in the CEIFP (excluding-LDI holdings)

The chart below shows how our assets were invested in the CEIFP at the end of 2022.



Strong and sustained returns over time and the recent increase in UK Gilts yields, have driven improvements in the funding level of our pension schemes. As a result, through 2021 and 2022, we have progressively reallocated investments away from so called ‘growth assets’ like developing and emerging equities into alternative, diversified and traditionally less volatile assets, with a focus on delivering income streams more closely ‘matching’ the future expected flow of pension payments.

The reduction in public equity investments has allowed us to further simplify consolidate the number of assets managers we work with, delivering recurring cost savings to members and employers (who bear the cost of scheme administration). At the end of 2022, the Fund’s assets within the CEIFP were managed by 18 investment managers (having terminated the emerging market equity mandate with GW&K in January 2022 and the smaller company equity mandate with Arrowstreet Capital in May 2022).

| Fund manager | Description |
|---------------------------------------|--|
| Antin Infrastructure Partners | Pooled infrastructure fund |
| Arrowstreet Capital (Until May 2022) | Small company equities |
| Audax Group | Portfolio of private loans in the US |
| Basalt Infrastructure Partners | Pooled infrastructure fund |
| Blackstone | Alternative income |
| Cambridge Associates | Private Equity |
| CBRE Global Investors | Property unit trusts |
| Colchester Global Investors | Emerging market debt |
| DBL Partners | Venture Capital |
| DIF Management | Pooled infrastructure fund |
| EQT Infrastructure Partners | Pooled infrastructure fund |
| Igneo (formerly First Sentier) | Pooled infrastructure fund |
| Generation Investment Management LLP | Global equities |
| GW&K (Until January 2022) | Emerging market equities |
| H.I.G Capital LLC | Portfolio of private loans in the US |
| I Squared Global Capital | Pooled infrastructure fund |
| Insight | High quality corporate bonds |
| KKR & Co. L.P. | Pooled infrastructure fund |
| Legal & General Investment Management | Global equities passively tracking the FTSE TPI Climate Transition Index |
| T Rowe Price | Emerging market equities |

Investment Performance

Total assets of the three schemes for which the Church of England Pension Board (CEPB) is trustee returned -13.2%, while the assets within the CEIFP (which excludes the Liability Driven Investment portfolio) returned -4.0% in 2022.

The longer-term annualised returns to 31 December 2022 for each of the broad asset classes are set out below. All figures are net of fund management fees and asset class returns are shown in Sterling terms.

| Investment returns to 31st December 2022 | £m | 3 Mos. | 1 Yr. | 3 Yrs. | 5 Yrs. | 10 Yrs. | ITD |
|--|--------------|-------------|--------------|--------------|------------|------------|--------------|
| CEPB Total Assets New | 2,903 | -1.1 | -13.2 | 2.3 | 3.8 | 7.6 | 7.6 |
| CEPB Total Assets ex LDI | 2,304 | 0.4 | -4.0 | 5.9 | 6.0 | 8.9 | 8.1 |
| Public Equity Pool | 829 | 3.7 | -13.3 | 4.4 | 5.8 | 9.6 | 8.4 |
| Global Equities | 679 | 2.1 | -9.7 | 6.4 | 7.6 | 11.6 | 8.5 |
| Emerging Market Equities | 150 | 3.8 | -8.7 | -1.4 | 0.7 | 5.2 | 5.3 |
| Diversified Growth Pool | 422 | -7.6 | 2.9 | 7.2 | 6.9 | 8.6 | 4.2 |
| Property | 276 | -10.8 | 6.6 | 6.9 | 6.4 | 8.4 | 4.0 |
| Private Equity | 146 | -6.4 | 4.8 | 9.0 | -- | -- | 0.9 |
| Diversified Income Pool | 765 | -0.2 | 14.2 | 9.6 | 9.3 | 8.0 | 8.1 |
| Infrastructure | 454 | -1.4 | 27.5 | 16.3 | 12.5 | 11.0 | 11.0 |
| Private Debt | 192 | -6.5 | 14.6 | 6.3 | 7.6 | -- | 5.8 |
| Emerging Market Debt | 76 | 1.2 | 7.0 | -0.1 | 1.8 | -- | 3.1 |
| Alt Income Producing Assets | 42 | -7.1 | 1.9 | -19.4 | -- | -- | -19.6 |
| Listed Credit Pool | 211 | 6.4 | -19.5 | -5.7 | -2.0 | 2.2 | 5.2 |
| Liquidity Pool | 78 | 1.3 | 1.9 | 0.3 | -0.6 | -0.9 | 0.1 |
| Gilts & LDI Accounts | 599 | -6.8 | -43.0 | -11.2 | -- | -- | -12.1 |

Fears that inflation and associated tightening in monetary policy could prompt a recession plagued markets for much of the year. This is largely reflected in the -13.3% decline in the public equity pool.

The impact of rising inflation, higher short-term rates and the crisis in confidence sparked by the UK mini fiscal statement in September, is most readily seen in the -43%, return on the Gilts and LDI accounts for 2022.

The global and UK developments outlined above also raised concern in the credit markets, and the rise in yields combined with a widening in credit spreads caused losses on the listed credit portfolio pool (-19.5%).

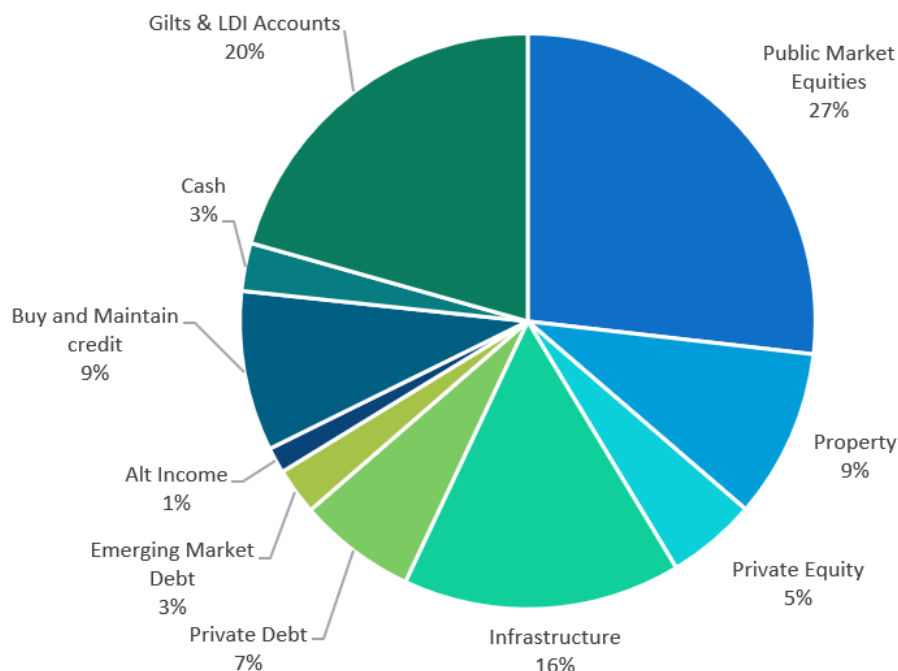
The property and private equity portfolios in the Diversified Growth (2.9%) and infrastructure, private debt and alternative income and credit portfolios in the Diversified Income portfolio (14.2%), fared better over the course of the year and provided an element of diversification to overall assets returns of the CEIFP.

Although returns have been somewhat disappointing, many fixed income markets have arguably moved to a point where we believe valuations are starting to look attractive. We have therefore taken the opportunity to reduce our market weighting to higher risk assets in the schemes in favour of potentially more stable return profile.

Over the course of the year, we made further investments in renewable energy, and green alternatives to fossil fuels. We also sought member views on how environmental, social and governance considerations are built into the range of investment options offered within the Defined Contribution funds used by the CAPF. We continue to look to move the assets that we hold in the portfolio to a more diversified and environmentally sustainable future.

Trustee's report (continued)

The chart below shows the distribution of the overall asset allocation for the total assets for which the Church of England Pensions Board is Trustee.



Investment management

The Trustee has delegated the responsibility for the management of investments to an Investment Committee, which is supported by professional in-house staff and external investment managers and advisors. The Trustee sets the investment strategy for the assets of the underlying schemes held within the CEIPF after taking advice from the Fund's Investment Advisor. The Trustee has put in place investment mandates with its investment managers which implement these strategies.

In accordance with Section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been prepared for each of the schemes participating in the CEIPF by the Trustee. These incorporate the investment strategy for each scheme and are supported by documents that set out how the investment strategy is implemented. Copies of the SIPs may be obtained from the contact details listed in Appendix 1. The investment risks and the strategies in place to mitigate them are described in the notes to the financial statements.

Management and custody of investments

The Trustee has appointed The Northern Trust Company Limited ("Northern Trust") to keep custody of the Fund's investments, other than pooled investment vehicles, where the manager makes its own arrangements for the custody of underlying investments.

Management charges

Each manager charges fees based on the value of the funds it is managing. In 2022 these fees (including those charged by Northern Trust as custodian) were £5.9m (2021: £6.9m). This equated to 0.26% (2021: 0.25%) of the average value of the funds under management. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles.

Approval

The Trustee's Report and Statement of Trustee's Responsibilities set out on page 6 were approved by the Trustee on 13 July 2023 and signed on its behalf by:

Clive Mather
Chairman

Statement of Trustee's Responsibilities

In respect of the financial statements

The Church of England Pensions Board is Trustee of The Church of England Investment Fund for Pensions ("CEIFP", or the "Fund").

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. The Trustee is responsible for ensuring that those financial statements:

- give a true and fair view of the financial transactions of the Fund during the year and of the amount and disposition at the end of the year of its assets and liabilities;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- comply with the requirements of the Trust Deed dated 18 September 1985 (as amended).

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Fund will continue as a going concern.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Independent Auditor's report to the Trustee of The Church of England Investment Fund for Pensions of the Church of England

Opinion

We have audited the financial statements of The Church of England Investment Fund for Pensions ("the Fund") for the year ended 31 December 2022 which comprise the statement of total return, the statement of changes in net assets attributable to unit holders, the statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 December 2022 and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Fund or have no realistic alternative but to do so.

Independent Auditors' report to the Trustee of The Church of England Investment Fund for Pensions of the Church of England (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, agreement of transactions and balances to custodian records and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Fund. This is addressed by obtaining direct confirmation from the investment custodian and fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

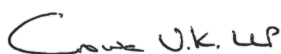
These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Trustee, as a body, in accordance with the Clergy Pensions Measure 1961 and the General Synod. Our audit work has been undertaken so that we might state those matters we are required in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.



Crowe U.K. LLP

Statutory Auditor

London 17 July 2023

Statement of total return for the year ended 31 December 2022

| | Notes | 2022 £000 | 2021 £000 |
|---|-------|--------------|--------------|
| Change in market value of investments | 6 | (145,665) | 310,771 |
| Change in market value of investment cash and other investment balances | 6 | (18,242) | (13) |
| Total change in market value | | (163,907) | 310,758 |
| Income | 4 | 66,350 | 59,831 |
| Expenses | 5 | (9,468) | (11,789) |
| Changes in net assets attributable to unit holders from investment activities | | (107,025) | 358,800 |

Statement of changes in net assets attributable to unit holders for the year ended 31 December 2022

| | Notes | 2022 £000 | 2021 £000 |
|---|-------|--------------|--------------|
| Opening net assets attributable to unit holders | | 2,729,043 | 2,540,057 |
| Amounts receivable on issue of units | 11 | 909,022 | 513,469 |
| Amounts payable on cancellation of units | 11 | (1,227,872) | (683,283) |
| Net assets before change from investment activities | | 2,410,193 | 2,370,243 |
| Changes in net assets attributable to unit holders from investment activities | 11 | (107,025) | 358,800 |
| Closing net assets attributable to unit holders | | 2,303,168 | 2,729,043 |

Statement of net assets attributable to unit holders as at 31 December 2022

| | Notes | 2022 £000 | 2021 £000 |
|---|-------|--------------|--------------|
| Investment assets | | | |
| Equities | 6 | 803,969 | 1,417,306 |
| Bonds | 6 | 270,758 | 174,820 |
| Pooled investment vehicles | 6 | 1,091,145 | 928,036 |
| Derivative contracts | 8 | 3,333 | 18,895 |
| Other investments | 6 | 320 | 172 |
| Investment cash | 6 | 134,534 | 182,620 |
| Other investment balances | 6 | 18,751 | 12,012 |
| Total assets | | 2,322,810 | 2,733,861 |
| Investment liabilities | | | |
| Derivative contracts | 8 | (17,417) | (1,776) |
| Investment cash | 6 | - | (13) |
| Other investment balances | 6 | (2,225) | (3,029) |
| Total investment liabilities | | (19,642) | (4,818) |
| Total net assets attributable to unit holders | 11 | 2,303,168 | 2,729,043 |
| Participants' funds | 11 | | |
| The Church of England Funded Pensions Scheme | | 1,975,029 | 2,159,654 |
| The Church Workers Pensions Fund | | 303,544 | 500,781 |
| The Church Administrators Pensions Fund | | 24,595 | 68,608 |
| Total participants' funds | | 2,303,168 | 2,729,043 |

The notes 1 to 13 form part of these financial statements.

These financial statements were approved by the Trustee on 13 July 2023 and signed on its behalf by:



Clive Mather
Chairman

Notes to the financial statements

1. Legal status

The Church of England Investment Fund for Pensions ("CEIFP" or the "Fund") is not a pension scheme nor a corporate body in its own right. It was established in 1985 by the Church of England Pensions Board as a vehicle to pool the investments of the four pension schemes of which it is also Trustee, in order to diversify the schemes' investments, particularly for the smaller schemes which would not be able to benefit from the breadth of investments available when the assets are pooled.

2. Basis of preparation

The individual financial statements of the Fund have been prepared on a going concern basis in accordance Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (2018) (the "SORP") insofar as they relate to common investment funds.

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Income and expenditure

Income from equities and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/interest. Income from bonds, cash and short-term deposits is accounted for on the accruals basis and includes income bought and sold on purchases and sales of bonds. Income is shown gross of all withholding taxes, with irrecoverable taxes shown as a separate expense.

Where the Fund can separately identify investment managers' fees, these are accounted for on a cash basis. Fees on pooled funds are not separately identifiable and so are not shown within expenditure.

The change in market value of investments during the year comprises all profits and losses realised on sales of investments and unrealised changes in market value.

Transaction costs are included in the cost of purchases and sales proceeds. These include fees, commissions, stamp duty and other fees.

b) Investment valuation

Investment assets and liabilities are measured at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and offer prices for investment liabilities. Otherwise the closing single price or most recent transaction price is used.

Where an active market is unavailable, the Trustee adopts valuation techniques appropriate to the class of investments. The methods for determining fair value for the principal classes of investments are:

- **Equities**
 - Quoted equities which are trading on an active market are included at the quoted price which is usually bid price.
 - Unquoted equities are valued with reference to the latest dealing prices, valuations from reliable sources or net asset values.
- **Bonds** are included at the 'clean' price i.e., excluding any accrued income. Any accrued income is included in current assets.
- **Pooled investment vehicles** which are not traded on an active market have their fair value estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation. The net asset value is determined by the fund manager by applying fair value principles to the underlying investments of the pooled arrangement. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used. For investments in vehicles where the Fund's Trustee is the sole ultimate beneficial owner and which are held for the purpose of resale, no consolidated accounts have been prepared as the statutory framework for pension schemes financial reporting does not require consolidation.
- **Derivatives**
 - **Forward contracts** are valued based on the gain or loss that would arise if the outstanding contract was closed out at the year-end date by entering into an equal and opposite contract at that date.
 - **Futures contracts** are valued at the difference between exchange settlement prices and inception prices.

c) Foreign currencies

The Fund's functional currency and presentational currency is pounds sterling.

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in the market value of investments.

d) Unitisation

The pools are revalued at the end of each month. The fund value is allocated between the unit holders according to their net accumulated unit holdings. New units are allocated on receipt of cash from unit holders at the unit price at the end of the preceding month. Units are cancelled on withdrawal of cash by unit holders at the unit price at the end of the preceding month.

Notes to the financial statements (continued)

4 Income

| | 2022 | 2021 |
|----------------------------|---------------|---------------|
| | £000 | £000 |
| Equities | 24,866 | 27,525 |
| Bonds | 9,869 | 8,520 |
| Pooled investment vehicles | 29,504 | 23,674 |
| Cash and cash equivalents | 2,111 | 112 |
| Total income | 66,350 | 59,831 |

5 Expenses

| | 2022 | 2021 |
|---------------------------|--------------|---------------|
| | £000 | £000 |
| Investment managers' fees | 9,468 | 11,789 |
| Total expenditure | 9,468 | 11,789 |

The Fund bears investment management expenses charged by the investment managers and custodians. Administration costs (including external audit fees) incurred by the Church of England Pensions Board in relation to the CEIFP are borne by the member schemes and are included in the administration expenses in the schemes' own financial statements. The investment managers' fees that we pay are a combination of the amount of assets under management and, for a few managers, the performance fee that they can earn on the funds they manage.

6 Investments

| | At 1 January | Purchases and derivative payments | Disposals and derivative receipts | Change in market value | At 31 December |
|-----------------------------------|------------------|---|---|---------------------------|-------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Equities | 1,417,306 | 518,204 | (989,950) | (141,591) | 803,969 |
| Bonds | 174,820 | 148,233 | (27,133) | (25,162) | 270,758 |
| Pooled investment vehicles | 928,036 | 202,021 | (161,205) | 122,293 | 1,091,145 |
| Other investments | 172 | 13,573 | (14,168) | 28 | (395) |
| Net derivative contracts (note 8) | 17,119 | 190,687 | (120,658) | (101,233) | (14,085) |
| | 2,537,453 | 1,072,718 | (1,313,114) | (145,665) | 2,151,392 |
| Investment cash | 182,607 | | | (11,037) | 134,535 |
| Other investment balances | 8,983 | | | (7,205) | 17,241 |
| Total investments | 2,729,043 | | | (163,907) | 2,303,168 |

Analysed between:

| | | |
|--------------------------|------------------|------------------|
| Investment assets | 2,733,861 | 2,322,810 |
| Investment liabilities | (4,818) | (19,642) |
| Total investments | 2,729,043 | 2,303,168 |

Other investment balances include the following balances

| | 2022 | 2021 |
|--|---------------|--------------|
| | £000 | £000 |
| Accrued income | 9,943 | 8,654 |
| Pending trade sales | 284 | 1,489 |
| Pending trade purchases | (311) | (1,951) |
| Variation margin | 7,325 | 791 |
| Total other investment balances | 17,241 | 8,983 |

During the year investments in the emerging market equity portfolio with GW&K were terminated for a total of £102.6m. The small cap equity mandate with Arrowstreet was also terminated for \$203.2m. In addition, there were additional dis-investments from the LGIM equity portfolio as part of the de-risking strategy. Proceeds were used to meet margin and collateral requirements for our FX hedges and LDI portfolios, fund investments in the Listed Credit pool with Insight and LDI portfolios with BlackRock. Additional commitments of EUR100m each were made into new infrastructure funds with Igneo and Antin.

Notes to the financial statements (continued)

6 Investments (continued)

a) Transaction costs

Transaction costs are included in the costs of purchases and deducted from sales proceeds in the reconciliation above. Direct transaction costs incurred attributable to key asset classes are analysed as follows:

| | 2022 | | | 2021 | | |
|----------|--------------------|-----------------------|---------------|--------------------|-----------------------|---------------|
| | Commission £000 | Other charges £000 | Total £000 | Commission £000 | Other charges £000 | Total £000 |
| Equities | 323 | 235 | 558 | 318 | 213 | 531 |
| | 323 | 235 | 558 | 318 | 213 | 531 |

Indirect transaction costs are also borne by the Fund through the bid-offer spread on pooled investment vehicles and charges made within these vehicles. It is not possible for the Trustee to quantify such indirect transaction costs.

b) Pooled investment vehicles

| | 2022 £000 | 2021 £000 |
|----------------------------------|--------------|--------------|
| Equities | 92,777 | 84,201 |
| Property | 259,186 | 242,386 |
| Cash | 13,074 | 12,476 |
| Private equity | 92,790 | 43,955 |
| Infrastructure | 440,890 | 377,092 |
| Private debt | 192,428 | 167,926 |
| Total pooled investment vehicles | 1,091,145 | 928,036 |

Private debt is the Fund's investment in the Thorney Island Limited Partnership (number LP017097), of which the Church of England Pensions Board is the sole Limited Partner as trustee for the Church of England Investment Fund for Pensions. A summary of the assets and liabilities of the Limited Partnership are below.

| | 2022 \$000 | 2022 £000 | 2021 \$000 | 2021 £000 |
|---------------------|---------------|--------------|---------------|--------------|
| Investments | 225,813 | 186,504 | 218,262 | 160,424 |
| Current assets | 20,584 | 17,000 | 20,847 | 15,323 |
| Current liabilities | (13,410) | (11,076) | (10,641) | (7,821) |
| Total net assets | 232,987 | 192,428 | 228,468 | 167,926 |

7 Investment analysis

Investments of over 5% of net assets

The Fund holds two investments of over 5% of net assets, representing 16.2% of net assets (2021: two assets representing 11.5% of net assets).

| | 2022 £000 | 2021 £000 |
|------------------------------------|--------------|--------------|
| CBRE GIP GA Fund | 180,518 | 145,855 |
| Thorney Island Limited Partnership | 192,428 | 167,926 |
| Total | 372,946 | 313,781 |

Employer related investments

There were no employer related investments as at 31 December 2022 (2021: none).

Notes to the financial statements (continued)

8 Derivatives

| | 2022 | | | 2021 | | |
|------------------------------------|-----------------|----------------------|----------------|-----------------|----------------------|----------------|
| | Assets £'000 | Liabilities £'000 | Total £'000 | Assets £'000 | Liabilities £'000 | Total £'000 |
| Futures – equities | - | (72) | (72) | 104 | (6) | 98 |
| Futures – bonds | 563 | (2,759) | (2,196) | 49 | (109) | (60) |
| Forward foreign currency contracts | 2,769 | (14,586) | (11,817) | 18,742 | (1,661) | 17,081 |
| Total derivatives | 3,332 | (17,417) | (14,085) | 18,895 | (1,776) | 17,119 |

Objectives and policies for holding derivatives

The Trustee has authorised its investment managers to use derivative financial instruments in line with the investment strategy as outlined in the Trustee's report: *Futures are used where the Fund has high cash reserves and are measured against the strategic asset allocation. Futures are used to take short term exposures in markets or asset classes where it is more efficient than transacting in the underlying physical assets. Investment managers may take short or long positions to achieve their objectives.* Forwards are used to mitigate currency risk by hedging 50% of equities assets denominated in US Dollar, Japanese Yen and Euro. They are also used actively in the emerging market sovereign debt portfolio to enhance returns.

a) Futures

The Fund had open futures contracts at year end, as summarised below:

| Type of future | 2022 | | | 2021 | | |
|----------------------------|------------------------|----------------|---------------------|------------------------|----------------|---------------------|
| | Exposure Value £000 | Assets £000 | Liabilities £000 | Exposure Value £000 | Assets £000 | Liabilities £000 |
| Equities futures: UK | - | - | - | 513 | 7 | - |
| Equities futures: Overseas | 2,563 | - | (72) | 5,398 | 97 | (6) |
| Total equities futures | 2,563 | - | (72) | 5,911 | 104 | (6) |
| Bonds: UK | 46,753 | - | (2,739) | 11,866 | - | (48) |
| Bonds: Overseas | (61,510) | 563 | (20) | (9,817) | 49 | (61) |
| Total bonds futures | (14,757) | 563 | (2,759) | 2,049 | 49 | (109) |

All contracts have expiry dates between 8 March 2023 and 31 March 2023. Included within other investment balances is an asset of £7,325,000 (2021: £791,000) in respect of initial and variation margins arising on futures contract open at the year end.

b) Forwards foreign currency contracts

The Fund holds investments in a number of foreign currencies and its policy is to hedge within agreed limits, to offset the impact of foreign currency fluctuations.

At the end of the year, the Fund had the following open forward contracts in place:

| Contract | Nominal value | Assets at 31 December 2022 £000 | Liabilities at 31 December 2022 £000 |
|----------------------------------|----------------------------|--|---|
| US Dollar | | | |
| Forward to buy US Dollars | \$37,892,716/\$18,709,250 | 361 | (428) |
| Forward to sell US Dollars | \$33,694,591/\$808,944,311 | 700 | (8,537) |
| Euros | | | |
| Forward to buy Euros | €3,364,193 | 31 | - |
| Forward to sell Euros | €155,958,644 | - | (4,330) |
| Japanese Yen | | | |
| Forward to buy Japanese Yen | ¥159,043,473 | 40 | - |
| Forward to sell Japanese Yen | ¥3,196,918,303 | - | (795) |
| Other currencies | | | |
| Forward to buy other currencies | | 1,637 | - |
| Forward to sell other currencies | | - | (496) |
| | | 2,769 | (14,586) |

All contracts had maturity dates falling between 3 January 2023 and 14 March 2023.

Notes to the financial statements (continued)

9 Fair value hierarchy

The fair value of investments has been determined using the following hierarchy:

| | |
|---------|---|
| Level 1 | Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date. |
| Level 2 | Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly. |
| Level 3 | Inputs are unobservable, i.e., for which market data is unavailable |

The Fund's investment assets and liabilities have been included at fair value within these levels as follows as at 31 December 2022:

| Level | 1 | 2 | 3 | Total 2022 |
|----------------------------|----------------|----------------|------------------|------------------|
| Investments | £000 | £000 | £000 | £000 |
| Equities | 803,910 | - | 59 | 803,969 |
| Bonds | - | 270,758 | - | 270,758 |
| Pooled investment vehicles | 18,982 | - | 1,072,163 | 1,091,145 |
| Other investments | - | (395) | - | (395) |
| Derivatives contracts | (2,268) | (11,817) | - | (14,085) |
| Investment cash | 134,535 | - | - | 134,535 |
| Other investment balances | 9,943 | 7,298 | - | 17,241 |
| Total investments | 965,102 | 265,844 | 1,072,222 | 2,303,168 |

Analysed by pool:

| Level | 1 | 2 | 3 | Total 2022 |
|--------------------------|----------------|----------------|------------------|------------------|
| Investments | £000 | £000 | £000 | £000 |
| Public equity pool | 849,133 | (4,810) | 329 | 844,652 |
| Diversified growth pool | 47,636 | (1,356) | 383,749 | 430,029 |
| Diversified income pool | 55,616 | 65,796 | 687,378 | 808,790 |
| Liquidity pool | 9,600 | - | 51 | 9,651 |
| Listed credit pool | 3,117 | 206,609 | 320 | 210,046 |
| Total investments | 965,102 | 266,239 | 1,071,827 | 2,303,168 |

The Fund's investment assets and liabilities have been included at fair value within these levels as follows as at 31 December 2021:

| Level | 1 | 2 | 3 | Total 2021 |
|----------------------------|------------------|----------------|----------------|------------------|
| Investments | £000 | £000 | £000 | £000 |
| Equities | 1,416,978 | - | 328 | 1,417,306 |
| Bonds | - | 174,820 | - | 174,820 |
| Pooled investment vehicles | 18,123 | - | 909,913 | 928,036 |
| Other investments | - | - | 172 | 172 |
| Derivatives contracts | 38 | 17,081 | - | 17,119 |
| Investment cash | 182,607 | - | - | 182,607 |
| Other investment balances | 8,654 | 329 | - | 8,983 |
| Total investments | 1,626,400 | 192,230 | 910,413 | 2,729,043 |

Analysed by pool:

| Level | 1 | 2 | 3 | Total 2021 |
|--------------------------|------------------|----------------|----------------|------------------|
| Investments | £000 | £000 | £000 | £000 |
| Public equity pool | 1,470,572 | 9,642 | 569 | 1,480,783 |
| Diversified growth pool | 35,708 | 1,789 | 321,187 | 358,684 |
| Diversified income pool | 13,920 | 74,726 | 588,447 | 677,093 |
| Liquidity pool | 102,610 | - | 88 | 102,698 |
| Listed credit pool | 3,590 | 106,073 | 122 | 109,785 |
| Total investments | 1,626,400 | 192,230 | 910,413 | 2,729,043 |

Infrastructure, Private debt and Hedge funds included in Level 3 are fair valued based on values estimated by underlying fund managers using accepted valuation methodologies and use of market information in the absence of observable market data.

Notes to the financial statements (continued)

10 Investment risk disclosures

The Trustee are responsible for determining the investment strategy and the investment strategy is established after taking advice from a professional investment advisor. The Fund has exposure to a number of investment risks because of the investments it makes to implement its investment strategy as described in the Trustee's Report. The Trustee manages investment risks, including credit and market risk, within agreed risk limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements that are put in place with the appointment of the Fund's investment managers.

The Trustee has investment management agreements in place with a range of managers, detailed in the professional advisors list in the Annual Report. The agreements set out the guidelines for the underlying investments held and the day to day management is the responsibility of the manager, including direct management of credit and market risks.

The Trustee monitors the investment managers through day to day monitoring of the portfolios and annual meetings. In addition, the Trustee performs due diligence procedures before taking on a new investment manager.

The Fund's investment pools are unitised. The proportion of units held by each member scheme is dependent on the individual requirements of each of the schemes. Investment risks are discussed in more detail in each Scheme's annual report and financial statements.

The table below summarises the extent to which the various classes of investments are affected by financial risks:

| | Credit risk | Market risk | | | Total | Total |
|-----------------------------|-------------|-------------|---------------|-------------|------------------------|------------------|
| | | Currency | Interest rate | Other price | 2022 | 2021 |
| | | | | | £000 | £000 |
| Equities | ○ | ● | ○ | ● | 803,969 | 1,417,306 |
| Bonds | ● | ○ | ● | ○ | 270,758 | 174,820 |
| Pooled investment vehicles | ● | ○ | ● | ● | 1,091,145 ¹ | 928,036 |
| Other investments (net) | ● | ○ | ○ | ○ | (395) | 172 |
| Derivatives contracts (net) | ● | ○ | ● | ● | (14,085) | 17,119 |
| Investment cash | ● | ○ | ○ | ○ | 134,535 | 182,607 |
| Other investment balances | ● | ○ | ○ | ○ | 17,241 | 8,983 |
| Total investments | | | | | 2,303,168 | 2,729,043 |

In the table above, the risk noted affects the asset class [●] significantly, [○] partially or [○] hardly / not at all.

¹ An analysis of Pooled Investment Vehicles is set out in Note 6

Notes to the financial statements (continued)

10. Investment risk disclosures (continued)

Credit Risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund is subject to credit risk through its investments in bonds, forward currency contracts, and cash balances. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

| | 2022 | 2021 |
|---|------------------|------------------|
| | £000 | £000 |
| Bonds | 270,758 | 174,820 |
| Pooled investment vehicles | 1,091,145 | 928,036 |
| Derivatives: forwards | 2,769 | 18,742 |
| Investment cash | 134,535 | 182,607 |
| Total investments exposed to credit risk | 1,499,207 | 1,304,205 |

The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

Credit risk arising on bonds held directly is mitigated by investing in corporate bonds which at the time of purchase are rated at least investment grade. Cash is also held with financial institutions which have an investment grade credit rating.

The Trustee manages the associated risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by one issuer. Credit risk is mitigated on other investments by engaging with counterparties which are at least investment grade.

Credit risk arises on over the counter derivatives as they are not guaranteed by a regulated exchange and therefore the Fund is subject to risk of failure of the counterparty. All counterparties must be at least investment grade.

The Fund's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors the investment managers through assessing investment performance, as reported by the custodian, and meeting with the manager annually.

A summary of pooled investment vehicles by type of arrangement is as follows:

| | 2022 | 2021 |
|---|------------------|----------------|
| | £000 | £000 |
| Limited Partnerships | 735,829 | 608,683 |
| SICAVs (*) | 13,074 | 12,476 |
| Exchange Traded Funds | 8,864 | 6,320 |
| Cooperatief U.A. (**) | 72,093 | 56,043 |
| FCP (**) | 202,563 | 172,348 |
| Property Authorised Investment Fund | 6,320 | 7,198 |
| Property Unit Trusts | 25,169 | 30,059 |
| Other funds | 27,233 | 34,909 |
| Total pooled investment vehicles | 1,091,145 | 928,036 |

(*) A Société d'investissement à Capital Variable (SICAV) fund is an open-ended investment fund structure offered by European financial companies.

(**) A Cooperateif U.A is a Dutch Cooperative.

(***) A FCP- Fond commun de placement is a type of specialised investment fund used by European financial institutions.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee has decided to partly mitigate this risk by using a currency hedging strategy of roughly half the exposure to the USD, Japanese Yen and Euro equities, and all the US Dollar exposure of private debt, using forward currency contracts.

Notes to the financial statements (continued)

10. Investment risk disclosures (continued)

The Fund's total net exposure by major currency at the year end was as follows:

| | Gross exposure £000 | Hedged exposure £000 | Net exposure 2022 £000 | Net exposure 2021 £000 |
|--|------------------------|-------------------------|------------------------------|------------------------------|
| Pounds sterling | 361,896 | 862,351 | 1,224,247 | 1,512,770 |
| US Dollars | 1,302,018 | (674,842) | 627,176 | 697,426 |
| Euros | 341,091 | (135,024) | 206,067 | 182,648 |
| Japanese Yen | 47,832 | (19,144) | 28,688 | 56,541 |
| Other currencies | 262,147 | (33,341) | 228,806 | 262,578 |
| Total investments (excluding forwards) | 2,314,984 | - | 2,314,984 | 2,711,963 |
| Forwards | (11,816) | - | (11,816) | 17,080 |
| Total investments | 2,303,168 | - | 2,303,168 | 2,729,043 |

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

The Fund is subject to interest rate risk due to its bond investments in the Listed Credit pool and Liability Driven Investment (LDI) portfolios held outside the CEIFP. If interest rates and bond yields fall, the market value of the bonds will rise, while if interest rates rise the values of bonds will fall. Changes in interest rate can also influence the value of the actuarial value of the liabilities of the schemes. The increase in value of bonds that arises from a fall in bond yields will often help to 'match' the increase in actuarial liabilities arising from a fall in discount rate. Similarly, if interest rates rise the values of the bonds will fall (as they did in 2022), this will often match the decline in the actuarial liabilities because of an increase in discount rate.

As we have noted in the Trustee report, UK Gilt yields rose sharply at the end of September on market concerns over the scale of unfunded tax cuts announced during the UK government mini-fiscal statement. The scale and speed of the rise in Gilt yields between 23-to-27 September 2022 caused many pension funds to have to sell investments in order to meet the collateral requirements of the LDI strategies that they were employing, which led in turn to further sales of Gilts and yield rising further. Although the schemes managed by the Trustees have LDI strategies, they did not have to undertake such extraordinary measures to meet their collateral requirements. The Pension Regulator (TPR) has since announced new guidance measures for such LDI strategies, and the Trustees will continue to adopt a prudent approach in the LDI strategies it employs in the schemes to ensure that these measures continue to be met.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund's return seeking portfolio is subject to price risk which principally relates to direct and indirect equity holdings, infrastructure equity, equity futures and investment properties. The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Property and infrastructure pooled investment vehicles are illiquid and that is reflected in the structures and liquidity of funds that invest in them. Some of the funds held by the Fund are open-ended, where the manager will redeem within shorter pre-agreed timeframes, but most are closed-end and redemption will normally only happen when the funds are wound up at the end of their pre-agreed lives. The Fund's closed-end funds have a range of maturities. Units in both types of fund can be traded between investors privately, but this is rare and managers generally have a say over whether such transactions can take place.

Private debt is illiquid, with funds becoming available when the underlying debt instruments mature. The instruments vary in maturity date, but usually mature within the next five years, giving access to the funds within a reasonable timeframe. There is unlikely to be a liquid secondary market for these private debt instruments.

11. Member schemes' participation

The Fund has five pools: the public equity pool containing mostly listed equities, the diversified growth pool containing mostly property and private equity assets, the diversified income pool containing mostly private loans and infrastructure assets, the listed credit pool containing corporate bonds and the liquidity pool containing cash.

Unitisation is the process of allocating units in the CEIFP to its participant member. The participant pension schemes purchase or dispose of CEIFP units in accordance with their operational requirements. The pricing of units is carried out by Northern Trust who also prepare monthly unitisation reports showing each participant's holdings in the CEIFP and transactions during the period.

The tables below show the movements in participants' holding in each of the pools:

Notes to the financial statements (continued)

11. Member schemes' participation (continued)

Listed credit pool:

| | At 1 January 2022 £000 | Amounts receivable on issue of units £000 | Amounts payable on cancellation of units £000 | Change in net assets from investment activities £000 | At 31 December 2022 £000 |
|--|---------------------------------|---|---|--|-----------------------------------|
| The Church of England Funded Pensions Scheme | 47,799 | 177,845 | (15,556) | (15,022) | 195,066 |
| The Church Workers Pension Fund | | | | | |
| Pension Builder Classic | 7,800 | - | (7,800) | - | - |
| Defined Benefit Scheme – Employer section | 2,886 | - | (554) | (583) | 1,749 |
| Defined Benefit Scheme – Life Risk section | 21,045 | 553 | (21,045) | (9) | 544 |
| The Church Workers Pension Fund | 31,731 | 553 | (29,399) | (592) | 2,293 |
| The Church Administrators Pension Fund | 30,255 | 20,300 | (29,400) | (8,468) | 12,687 |
| Total Listed credit pool | 109,785 | 198,698 | (74,355) | (24,082) | 210,046 |

Public equity pool:

| | At 1 January 2022 £000 | Amounts receivable on issue of units £000 | Amounts payable on cancellation of units £000 | Change in net assets from investment activities £000 | At 31 December 2022 £000 |
|--|---------------------------------|---|---|--|-----------------------------------|
| The Church of England Funded Pensions Scheme | 1,184,759 | 37,334 | (317,028) | (157,375) | 747,690 |
| The Church Workers Pension Fund | | | | | |
| Pension Builder 2014 | 25,650 | 6,086 | (10,770) | (3,867) | 17,099 |
| Pension Builder Classic | 81,169 | 2,501 | (16,760) | (10,334) | 56,576 |
| Defined Benefit Scheme – Employer section | 124,384 | 4,548 | (101,758) | (12,755) | 14,419 |
| Defined Benefit Scheme – Life Risk section | 41,905 | 11,451 | (49,907) | (346) | 3,103 |
| The Church Workers Pension Fund | 273,108 | 24,586 | (179,195) | (27,302) | 91,197 |
| The Church Administrators Pension Fund | 22,916 | 750 | (15,387) | (2,514) | 5,765 |
| Total public equity pool | 1,480,783 | 62,670 | (511,610) | (187,191) | 844,652 |

Diversified growth pool:

| | At 1 January 2022 £000 | Amounts receivable on issue of units £000 | Amounts payable on cancellation of units £000 | Change in net assets from investment activities £000 | At 31 December 2022 £000 |
|--|---------------------------------|---|---|--|-----------------------------------|
| The Church of England Funded Pensions Scheme | 296,980 | 53,968 | - | 6,388 | 357,336 |
| The Church Workers Pension Fund | | | | | |
| Pension Builder 2014 | 6,210 | 2,951 | - | 67 | 9,228 |
| Pension Builder Classic | 19,469 | 5,795 | (2) | 234 | 25,496 |
| Defined Benefit Scheme – Employer section | 29,762 | 9,607 | (2,949) | 567 | 36,987 |
| Defined Benefit Scheme – Life Risk section | 6,263 | 3,335 | (8,604) | (12) | 982 |
| The Church Workers Pension Fund | 61,704 | 21,688 | (11,555) | 856 | 72,693 |
| The Church Administrators Pension Fund | - | - | - | - | - |
| Total diversified growth pool | 358,684 | 75,656 | (11,555) | 7,244 | 430,029 |

Diversified income pool:

| | At 1 January 2022 £000 | Amounts receivable on issue of units £000 | Amounts payable on cancellation of units £000 | Change in net assets from investment activities £000 | At 31 December 2022 £000 |
|--|---------------------------------|---|---|--|-----------------------------------|
| The Church of England Funded Pensions Scheme | 546,499 | 48,821 | (7,003) | 79,580 | 667,897 |
| The Church Workers Pension Fund | | | | | |
| Pension Builder 2014 | 11,684 | 2,325 | (151) | 1,832 | 15,690 |
| Pension Builder Classic | 36,895 | 5,661 | (293) | 5,430 | 47,693 |
| Defined Benefit Scheme – Employer section | 57,235 | 10,060 | (5,303) | 8,152 | 70,144 |
| Defined Benefit Scheme – Life Risk section | 12,140 | 5,967 | (16,983) | 138 | 1,262 |
| The Church Workers Pension Fund | 117,954 | 24,013 | (22,730) | 15,552 | 134,789 |
| The Church Administrators Pension Fund | 12,640 | 7,400 | (15,550) | 1,614 | 6,104 |
| Total diversified income pool | 677,093 | 80,234 | (45,283) | 96,746 | 808,790 |

Notes to the financial statements (continued)

11. Member schemes' participation (continued)

Liquidity pool:

| | At 1 January 2022 | Amounts receivable on issue of units | Amounts payable on cancellation of units | Change in net assets from investment activities | At 31 December 2022 |
|--|-------------------------|---|---|--|---------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| The Church of England Funded Pensions Scheme | 83,618 | 302,928 | (379,611) | 105 | 7,040 |
| The Church Workers Pension Fund | | | | | |
| Pension Builder 2014 | 1,810 | 19,155 | (20,825) | 10 | 150 |
| Pension Builder Classic | 5,749 | 27,481 | (33,006) | 9 | 233 |
| Defined Benefit Scheme – Employer section | 8,668 | 16,953 | (24,392) | 57 | 1,286 |
| Defined Benefit Scheme – Life Risk section | 56 | 93,263 | (92,487) | 70 | 902 |
| The Church Workers Pension Fund | 16,283 | 156,852 | (170,710) | 146 | 2,571 |
| The Church Administrators Pension Fund | 2,797 | 31,987 | (34,751) | 7 | 40 |
| Total liquidity pool | 102,698 | 491,767 | (585,072) | 258 | 9,651 |

12. Contingencies and commitments

In the opinion of the Trustee, the Fund had no contingent liabilities at 31 December 2022 (2021: nil).

As at 31 December 2022, the Board had made the following commitments:

| | 2022 | 2021 |
|---|-------|-------|
| | £m | £m |
| Pooled investment vehicles (equity) | 4.2 | 8.2 |
| Pooled investment vehicles (private equity) | 151.7 | 286.3 |
| Pooled investment vehicles (property) | - | - |
| Pooled investment vehicles (infrastructure) | 256.1 | 113.3 |
| Pooled investment vehicles (private debt) | 10.1 | 6.3 |
| Total commitments | 422.1 | 414.1 |

13. Related party transactions

Two Board members (2021: two) who have retired from the schemes under normal service are in receipt of pensions from the schemes.

Certain private debt investments are made through Thorney Island Limited Partnership (number LP017097), of which the Church of England Pensions Board is the Limited Partner as trustee for the Church of England Investment Fund for Pensions.

2022 Engagement Policy Implementation Statement

Church of England Funded Pensions Scheme

1. Introduction

This is the Church of England Pension Board's Engagement Policy Implementation Statement in respect of the Church of England Funded Pensions Scheme (the "**Scheme**"). This statement has been prepared in accordance with the requirements of regulations 12(1) and 12(5)(b) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), taking account of guidance published by the Pensions Regulator. The Church of England Pension Board has prepared this statement in its capacity as Trustee of the Scheme and is referred to as the "**Trustee**" in the rest of this document.

This statement:

- sets out how, and the extent to which, in the Trustee's opinion, the Scheme's engagement policy has been followed during the year to 31 December 2022 (the "**Scheme Year**");
- describes any voting behavior by, or on behalf of, the Trustee in respect of the Scheme during the Scheme Year.

The Statement of Investment Principles ("SIP") is prepared by the Trustee with advice from its investment consultant, Mercer. The SIP was last amended on 29 September 2022, primarily to reflect the changes in the Scheme's interest rate and inflation hedging strategy (see section 4 for further details). A full copy of the SIP is available on the Trustee's website [here](#).

2. Investment Objectives of the Scheme

The Trustee is responsible for the stewardship of the Scheme's assets. It has three main objectives, which are to ensure that:

1. All beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme.
2. There are sufficient assets to meet the Scheme's liabilities as they fall due, and
3. Through the process of meeting the Scheme's liabilities that the Scheme's investments do not work against beneficiaries' interests and the world into which they will retire.

The Trustee has an objective for the Scheme to be fully funded on a basis that reflects the asset holdings that the Scheme is expected to hold as a Scheme open to new entrants in the long-term. The Trustee also monitors the Scheme's funding position on a low dependency basis, in-line with the Pension Regulator's guidance.

3. Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ("ESG") factors, stewardship and climate change, under section 8 entitled Ethical and Responsible Investment. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The SIP was last reviewed and updated in September 2022, primarily to reflect changes to the Scheme's interest rate and inflation hedging strategy. The Trustee keeps the policies under regular review with the SIP reviewed every year and without delay after any significant change in investment policy, or if required, following a formal strategy review. In addition to the SIP, the Scheme also maintains a [Stewardship](#)

[Implementation Framework document](#), which summarises how the Trustee implements its commitment to ethical and responsible investment.

The following two sections summarise the work undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

4. Assessment of how the engagement policy in the SIP has been followed for Scheme Year

Engagement activity is carried out and monitored by the in-house investment team on behalf of the Trustee. During the Scheme Year there were a significant number of engagement activities, particularly in respect of the Board's priority areas of climate change, ethnic and gender diversity, extractives and other initiatives for a just and sustainable world. The Board continued its involvement with various collective engagement initiatives, including the Transition Pathway Initiative, Climate Action 100+, Assessing Sovereign Climate-related Opportunities and Risks ("ASCOR") and the Mining and Tailings Safety Initiative. At a company level, key engagements included TotalEnergies, VW and Shell. Full details of the engagement activity is set-out in the Trustee's 2022 [Stewardship Report](#), available on the Pension Board's webpages here:

<https://www.churchofengland.org/about/leadership-and-governance/church-england-pensions-board>

- The Trustee maintains a list of excluded companies based on the Board's ethical investment screens and restrictions based on the escalation of engagement/stewardship review. As at 31 December 2022, the list comprised 554 companies covering a range of themes including gambling, alcohol, defence, climate change and tobacco. The revenue screen for ethical exclusions is monitored by the in-house team and refreshed every 3 months.
- Over the Scheme Year, the Trustee has assessed the ongoing suitability of the appointed investment managers. Each manager's strategy, decisions, financial and ESG/ethical performance are monitored by the Trustee's investment committee on a quarterly basis. As part of this process, it was AGREED to terminate the small cap equity mandate managed by Arrowstreet, primarily driven the Investment Committee's desire to reduce the complexity and costs of the investment arrangements.
- During the Scheme Year the Investment Committee invested in two new infrastructure funds, namely Antin Infrastructure V and Igneo EDIF III. These investments were made to seek to achieve and maintain the target allocation to infrastructure. Both appointments were in line with the Trustee's policy, in terms of perceived likelihood of meeting the required risk and return expectations, whilst also meeting the Trustee's ESG policies.
- During the Scheme Year, the in-house team expanded its proprietary responsible investment assessment to cover 100% of the Board's appointed investment managers, an increase from 70% in the previous Scheme Year. The Board's assessment complements Mercer's ESG assessment (which covers 90% of the Scheme's investment managers).
- During the Scheme Year, the Trustee reviewed the structure of the Scheme's liability driven investment mandate with BlackRock. Having taken advice from Mercer, the Trustee agreed to increase the interest rate hedge ratio from 42% to 50% and maintain the inflation hedge ratio at 50%, relative to the liabilities measured on a 'gilts + 0.5%' basis.

- The Trustee believes that the appointments of its remaining investment managers are consistent with its long-term objectives and no further changes were made over the Scheme Year.

5. Voting Activity & Significant Votes over the Scheme Year

- In respect of the relevant voting assets (equities) held within the Scheme, the Trustee maintains full discretion over voting activity. This is administered by the in-house team using a platform provided by Institutional Shareholder Services (“ISS”), with input from the Board’s Ethical Investment Advisory Group (“EIAG”), and a responsible proxy voting template developed in collaboration with other members of the Church Investors Group.
- In 2022, 21,950 votes were cast, 17.1% of which were cast against management’s recommendation (or support was withheld). Full details of the votes, along with the rationales, can be found [here](#).
- Following the DWP’s consultation response and outcome regarding Implementation Statements on 17 June 2022 (“Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance”) one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a “significant vote”:
 - A significant vote is defined as one that is linked to the Scheme’s stewardship priorities/themes.
 - A vote could also be significant for other reasons, e.g. due to size of holdings.
 - The Trustee are to include details on why a vote is considered significant and rationale for the voting.
- The Trustee as an active voter exercises its voting rights in line with its comprehensive voting policy and according to its stewardship priorities. The Trustee has classified ‘significant votes’ as any vote against management on the basis of any of the Board’s voting policies.
- Examples of such significant votes are summarised in the table overleaf.
- Further details, including the voting template and examples of significant votes can be found in the Trustee’s Stewardship Report 2022 [here](#).

| | Vote 1 | Vote 2 | Vote 3 |
|--|---|--|--|
| Company | AstraZeneca Plc | JPMorgan Chase & Co. | Ocado Group Plc |
| Date of Vote | 29/04/2022 | 17/05/2022 | 04/05/2022 |
| Why was vote considered significant | Vote went against one of the Board's voting policies | | |
| Approximate size of holding at date of vote (as a % of portfolio) | 0.1% | 0.2% | 0.1% |
| Summary of resolution | Approve Remuneration Report | Advisory Vote to Ratify Named Executive Officers' Compensation | Re-elect Directors |
| How Trustee voted | Against the resolution | Against the resolution | Against the re-election of seven out of eight board directors |
| If the vote was against management, did the Trustee communicate their intent to the company ahead of the vote? | No, however, we vote consistently year on year, and follow up votes against management with engagement for our top 50 equity holdings. | | |
| Rationale for the voting decision | We did not support the management proposal filed by AstraZeneca requesting the approval of their remuneration report. This is because the remuneration of the CEO including the annual bonus scheme was in excess of the standard set out in our voting policy. | We did not support management's proposal to approve the proposed remuneration of the JPMorgan CEO, on the basis that the package breached local good practice and the bonus scheme awarded the CEO an excessive multiple of salary (see our remuneration policy here). The CEO's compensation included a \$51m stock option award, intended to incentivise his retention as CEO for five years. | We voted against re-election of all members of the nominations committee (those that had served on the committee since the previous AGM), because the Board only comprises 23% female members. We have previously voted against the chair of the committee, without seeing improvement. 23% is well below the average for FTSE 100 companies and is below the 40% threshold the Pensions Board expects for UK companies we invest in. |
| Outcome of the vote | 7.8% of shareholders voted against the resolution | 69% of shareholders voted against the resolution | All directors were re-elected, with between 2.1% and 6.8% dissent from shareholders |
| Next Steps | In March 2023 the Pensions Board launched the Asset Owner Roundtable on Executive pay to further combat and create discussion around the topic of fair pay. The Board invited the Chair of AstraZeneca's remuneration committee (and all other FTSE100 remuneration committee Chairs) to join the discussion. The discussion at this roundtable highlighted significant concerns about remuneration in many of the public companies we invest in. It is reasonable for senior executives to be rewarded fairly for their roles, and for good performance to be recognized. However, unfair, excessive, or misaligned incentives present investment risks, and may be indicative of wider governance failures. | Our ongoing executive pay project (see left and our 2022 Stewardship Report for further details of this initiative) will begin in the UK market, but we are exploring ways to extend our approach to other markets, including the US. | We will keep Ocado Group under review. On gender diversity more broadly, the Board continues to act to improve standards in the boardroom and industry through the Asset Owner Diversity Charter, of which we were a founding signatory. The charter "is a commitment by firms to work together to build an industry which represents a more balanced and fair representation of diverse societies. "The charter reflects both the Board and other "asset owners' aspirations to see diversity balance at all levels across financial firms". A balanced workforce is good for business, consumers, profitability and culture. |

Task Force on Climate-related Financial Disclosures Report 2022



About the Board's TCFD Report

The Church of England Pensions Board is pleased to publish its third report aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and its first standalone climate change report. This report explains the governance arrangements and actions taken by the Pensions Board's Trustees in identifying, assessing and managing climate-related risks and opportunities. The executive summary pages are intended to be accessible to Scheme members without any specialist or technical climate expertise, whereas the length and depth of this report is intended to fulfil the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 ('the Regulations'), which are themselves designed to align with the recommendations of the TCFD.¹

The TCFD is a market-driven initiative, set up by the Financial Stability Board (FSB) to develop a set of recommendations for consistent climate risk disclosure. Its recommendations are structured around four sections, Governance, Strategy, Risk Management, and Metrics and Targets, and the Board has voluntarily reported in line with the TCFD framework since 2020.

The Scheme covered by this report is the Church of England Funded Pensions Scheme (CEFPS), whose members are Clergy of the Church of England. It is a defined benefit scheme, with assets under management of £2.4bn as of 31 December 2022. All data in this report is as of 31 December 2022 unless otherwise stated.

The Church of England Pensions Board and its asset managers carry out significant climate-related activity, based on the Trustees' 'Statement of Investment

Principles', which includes the statement that "The Trustees recognise climate change as a major financial, social and ethical risk, and one that has potential to impact gravely on the financial well-being of the members of its schemes, as well as their quality of life in retirement" (CEFPS Statement of Investment Principles 2022). Climate change has been one of two stewardship priority topics for the Pensions Board since 2018.

While the CEFPS is the only scheme in scope of the statutory requirements, the Board has previously reported on the climate governance and actions relating to the Board's common investment fund, which serves the DB Schemes and sections administered by the Board, namely the CEFPS, the Church Workers' Pension Fund Defined Benefit Scheme, the Church Workers' Pension Fund Pension Builder schemes (2014 and classic), and the Church Administrators Pension Fund Defined Benefit Scheme. Though they fall outside the regulatory requirement identified above due to their size, much of this report also applies to those schemes (due to the nature of the common fund), and the Board's climate-related stewardship governance and actions apply to and are conducted in the interests of those schemes' members alongside CEFPS. The scenario analysis and stress testing detailed below is specific to the CEFPS.

“

This report sets out how the Board's trustees are taking steps to understand and respond to climate change, specifically in relation to our largest scheme (for clergy: CEFPS). By taking action to address climate change, we can protect our members' retirement income, and we can also help to build a more sustainable future.

”

Summary for members

Introduction

Climate change is one of the most significant risks facing the world today. It is also a major risk to pension schemes, which rely on investments to provide retirement income for members. The Regulator and Government expect Trustees to demonstrate they have understood the risks and opportunities presented by climate change. This report sets out how the CEFPS is taking steps to understand and respond to climate change. By taking action to address climate change, we can protect our members' retirement income, and we can also help to build a more sustainable future.

This report shows how climate change is considered and acted upon, from the level of the Board, through its committees and executives, through investment decision-making and stewardship activity (including engagement and voting at company annual general meetings). We report on initiatives like the Transition Pathway Initiative (TPI), that we chair and has generated support from investors with over \$50 trillion of assets under management. Our stewardship initiatives are reported in more detail annually in our Stewardship Report, which is available on the Board's webpages [here](#).

Understanding the future

One of the core tools required by the regulations and reported below, is climate scenario analysis and stress testing. This involves creating a range of different possible future scenarios, based on how climate change might unfold, and then testing the impact of those futures on the global economy and our portfolio. This is a complex and imprecise business with many assumptions underpinning each scenario. However, the outcomes can help Trustees and the Executive understand the potential impact of climate change in general terms. In our case, in rapid

and orderly transition climate scenarios the way we invest creates a small positive outcome over the long term, and in the failed transition scenario (where climate change is left unchecked and global warming exceeds 4°C above pre-industrial levels by 2100), the Scheme's funding position is significantly negatively impacted; it is 33% worse than a relevant baseline, and becomes under-funded. This clearly shows the financial interest we have in driving the climate transition to a low carbon economy. We should be aware that climate modelling into scenarios is still very much in development and could underplay climate impacts. To mitigate this we engage in dialogue with peers, regulators and other key experts to ensure we are well placed to understand any limitations.

Measuring climate performance

This report also includes details of metrics the Board uses to monitor climate performance over time. These metrics are only part of the story because we focus our efforts on engagement with companies we own and sectors we are invested in, encouraging them to change their emissions over time (we want to influence change in the real world, rather than just avoiding emissions in our own portfolio). That said, the metrics show a positive picture, and a steady decarbonisation, ahead of our target since the baseline year (2019). Our portfolio is also, according to a 'portfolio alignment' methodology detailed below, better aligned to the climate transition (over the short, medium, and long term) than relevant benchmarks. This is no accident and reflects intentional steps the Board has taken in developing TPI and integrating that insight into the passive mandate and active managers.

Future reports

Overall, this is a report, rather than an assessment. It shows the governance structures, strategies, risk management approaches and metrics and targets for the clergy scheme in 2022. It does not include full details of the collaborations we have built and contribute to, nor the outcomes of our engagement (see our Stewardship Report for these). Also, the metrics and analysis are limited in several ways: data availability, methodological challenges and the difficulty investors have in interpreting the way their portfolio impacts on and is impacted by the future, all contribute to the challenge. As we continue to report in future years, this disclosure will improve in breadth, depth and clarity. Nonetheless, we hope that this report will give members a sense of the amount of time and effort the Board is putting into understanding and acting on climate change.

Why is climate risk important to pension funds?

The Pensions Board's trustees have selected climate change as a key priority for risk management and our ethical and responsible investment approach. This means the Trustees and executives prioritise the integration of climate considerations in investment decision-making and undertake dedicated and impactful stewardship with portfolio companies. It also means the Pensions Board dedicates significant efforts to pursuing strategic projects to limit the impacts of climate change, such as our strategic focus on mining and corporate climate lobbying as two examples.

The Board's climate change policy notes that "greenhouse gas emissions are the most significant contributor to changes in the world's climate, and that urgent action is needed if we are to avert the worst consequences of climate change on ecosystems, and on present and future generations... Climate change is a present day reality and already leading to significant impacts on the poorest and most marginalised in the world. The poorest are least able to adapt to climate-related extremes, yet suffer disproportionately the ecological, social and economic consequences that flow from these changes".²

Specific risks that can manifest from climate include:

- Death, injury, ill-health, or disrupted livelihoods in low-lying coastal zones, in small island developing states and in other small islands due to storm surges, coastal flooding and sea level rise.
- Severe ill-health and disrupted livelihoods for large urban populations due to inland flooding in some regions.

- Breakdown of infrastructure networks and critical services such as electricity, water supply, and health and emergency services as a result of extreme weather events.
- Increased rates of mortality and morbidity during periods of extreme heat, particularly for vulnerable urban populations and those working outdoors in urban or rural areas.
- Food insecurity and the breakdown of food systems as a result of warming, drought, flooding, and precipitation variability and extremes, particularly for poorer populations in urban and rural settings.
- Loss of rural livelihoods and income due to insufficient access to drinking and irrigation water and reduced agricultural productivity, particularly for farmers and pastoralists with minimal capital in semi-arid regions.
- Loss of marine and coastal ecosystems, biodiversity, and the ecosystem goods, functions and services they provide for coastal livelihoods, especially for fishing communities in the tropics and the Arctic.
- Loss of terrestrial and inland water ecosystems, biodiversity, and the ecosystem goods, functions and services they provide for livelihoods.³

The risks and related information detailed throughout this report provide the rationale for the time and resources the Trustees have spent on the governance of climate-related risks and opportunities.

| What is transition and physical risk? | Examples |
|--|---|
| Transition risk relates to the financial implications of the rapid required transition to a low carbon economy. | <ul style="list-style-type: none"> • Technology change • Policy and regulatory change • Opportunities (e.g. critical minerals, green infrastructure) arising from the transition |
| Physical risk relates to the physical impacts (direct and indirect) of extreme weather and climate changes arising from global warming. | <ul style="list-style-type: none"> • Chronic risks such as water and food insecurity • Acute damage to infrastructure from storm, fire or flooding |

Why is climate risk important to pension funds? continued

WHAT DRIVES INVESTMENT-RELATED CLIMATE RISK?

From an investment perspective, the Trustees view climate change as creating both systemic and idiosyncratic risks and opportunities. That is, risks to the entire global economic system, as well as individual companies within that system.

Broadly speaking, on the negative side, there is risk that unchecked climate change will damage the global economy, and risk that individual companies in which we invest will be worse off due to valuation changes, regulatory burden, stranded assets, acute (e.g. storms, fires) and chronic (e.g. water stress) risks manifesting. We believe that investment markets are not fully pricing in climate change risks, due to a range of systemic obstacles including the tragedy of the horizons (time horizon mismatches between capital markets and our beneficiaries climate-related interests), complexity,

pricing failures, behavioural economics, and slow adoption of effective stewardship among regulators and within capital markets.

The Board's approach to stewardship directly addresses a number of these obstacles, for example the TPI providing analytical clarity and comparability, the integration of TPI analysis changing incentives, investor networks galvanising collaboration, and the development of a global corporate climate lobbying standard contributing to improved public policy dialogue through improved alignment between corporations and their industry associations. The rapid transition to a low carbon economy may also benefit a subset of portfolio companies, particularly those offering climate solutions, critical transition minerals and green infrastructure.

Governance

Roles and responsibilities

The Board of Trustees has responsibility for responsible investment, and this includes oversight of climate-related risks and opportunities relevant to the Schemes. The Investment Committee (a sub-committee of the Board) supports the full Board of Trustees by making recommendations and by overseeing the implementation of the Board's investment and climate strategies. The Chief Executive Officer, Chief Investment Officer and Chief Responsible Investment Officer, are the lead executives responsible for making sure appropriate strategies are in place to understand, identify, measure, monitor, control, and report risks and opportunities related to climate change, and responsible investment concerns more broadly. They are supported by management, which includes in-house responsible investment specialists, who advise the Board and its Investment Committee with standing agenda items at meetings, and regularly review the Board's approach and implementation of relevant strategies.

How the Board assesses and manages climate change risks

The Board of Trustees receives updates from a number of parties on climate-related risks and opportunities:

- The Investment Committee provides updates to the Board at every meeting as a standing agenda item, which includes a review of progress against the Board's stated objectives on responsible investment, asset manager climate-related assessments, and company engagements. It also updates on investment strategy on an annual basis, and scenario analysis biannually.

- The Church of England Ethical Investment Advisory Group (EIAG) provides ethical investment advice to the Board and Investment Committee, and has committed to review their climate advice annually.
- Where appropriate, the Board engages consultants to produce detailed work on climate change to better understand risks and opportunities. For example, the Board has worked with Mercer, Ortec Finance and Cambridge Econometrics (on climate change scenario analysis), LCP/the Scheme Actuary (who provide advice on climate change risks/impacts upon CEFPS's funding strategy and the triennial actuarial Scheme valuations), MSCI (carbon footprint data), the Transition Pathway Initiative (company-level climate assessments and asset allocation via the TPI Climate Transition Index), and Cardano (employer covenant climate change scenario analysis).
- External climate change experts also provide relevant training and further 'deep dives', for example on regulatory requirements related to TCFD, and undertook a detailed session on scenario analysis (in 2022).

The Board of Trustees reviews specific data via specific indicators established by the Board to track and monitor progress on climate change within the Scheme. These metrics are covered in more detail in section 4.

How management assesses and manages climate change risks

The Trustees have considered and provide the following rationale for the management time and resources spent on climate change: Climate change is recognised in our Schemes' Statement of Investment Principles and Beliefs as "a major financial, social, and ethical risk" for trustees

and executives to consider, and is the topic of a Board-approved dedicated Ethical Investment Policy. As such it is appropriately considered a key stewardship priority, demanding a significant proportion of the investment team's time and effort. The Board's Climate Change Policy is available [here](#).

The Board of Trustees has developed significant in-house expertise within the management team on climate change, and executives' various memberships, global leadership positions, and collaborative initiatives present significant opportunities for ongoing training and skills development. Relevant initiatives include:

- Management participate in and to a large extent have leadership roles in initiatives such as Transition Pathway Initiative (TPI), The Paris Aligned Investment Initiative and its Net Zero Investment Framework (NZIF), the Powering Past Coal Coalition, and Financing the Just Transition Alliance.
- Management and team members regularly chair investor dialogues between high carbon sectors and investors.
- Formal training such as courses by the Principles for Responsible Investment and the CFA institute are supported with paid study leave where appropriate.

The process by which the Trustees satisfy themselves that the CEO, CIO, CRIO, relevant 'in-house' staff and advisors take adequate steps to identify, assess, and manage the climate risks and opportunities includes the steps set out in this governance section, and includes formally reviewing and discussing reports and detailed presentations from executives and external advisors at Investment Committee and Board meetings.

Governance continued

Establishing a culture of climate risk awareness

The Board of Trustees ensure staff are informed on progress against climate objectives. In climate change meetings and presentations, where management presents, external advisors are expected to challenge and comment, and when advisors present, management is expected to challenge and comment.

Process of selecting advisors and providing data

Advisors are selected through the Board's established procurement processes, to ensure the relevant competency/expertise and value for money. For the investment advisor, advice on climate change is explicitly mentioned in the Advisors' formal documentation ('Strategic Objectives for Investment Consultancy Services'), the investment advisor is reviewed against their strategic objectives annually. Advisors undertaking scenario analysis were provided with liability and asset allocation information during the Scheme year (2022), carbon footprint data was calculated on the basis of holdings data from the Board's Custodian, also during the Scheme year (2022). The Board most recently conducted, and the Audit Committee reviewed audits on its climate change approach and on ethical compliance in 2020, receiving the highest levels of assurance: 'substantial' and 'full'. Some minor process improvements were identified and implemented, including policy document formatting.

Plans for the next reporting period

The Board plans to undertake scenario analysis at least every three years, or at the discretion of the Investment Committee, which monitors other climate information on an ongoing basis (quarterly).

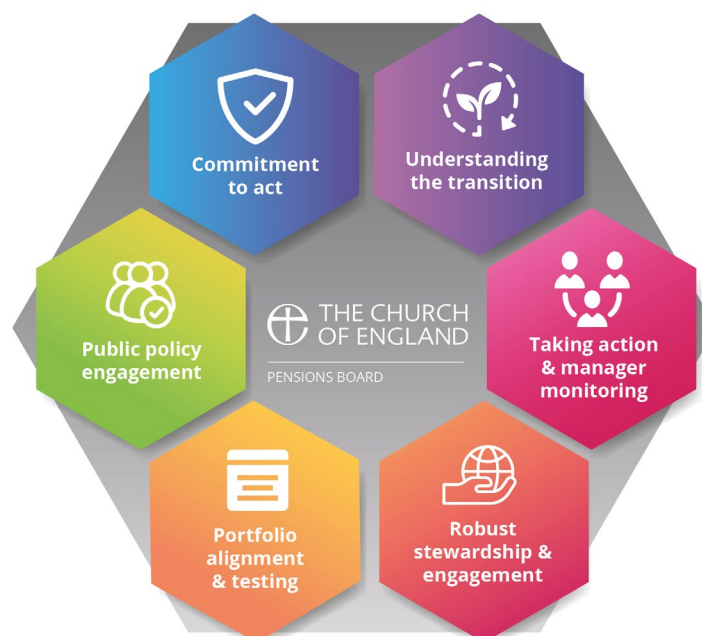


Strategy

Our strategy to incorporate climate risks and opportunities

The Church of England Pensions Board's strategy to climate is focused on driving a transition of the global economy to net zero emissions through using the levers at our disposal as a responsible investor and stakeholder in the operations of the Scheme's employers. We see climate change as a significant risk to the value of pensions but also to the future of the planet, the communities our beneficiaries serve, and our society. Our focus is therefore to drive changes in the real economy via improving policy and industry action aligned with a swift, fair, just transition to net zero by 2050. Our strategy includes six levers: our commitment to act, understanding the transition, taking action and manager monitoring, public policy engagement, portfolio alignment and testing, and robust stewardship and engagement.

APPLYING OUR INTERCONNECTED STRATEGIC APPROACH TO CLIMATE CHANGE



Commitment to act

The Board remains committed to Net Zero by 2050, or sooner.



Understanding the transition

The Board continues to Chair the TPI (which in 2022 saw the launch of the Global Climate Transition Centre at the London School of Economics), leads developments in Net Zero investor practice through the Paris Aligned Investor Initiative, which we Chair, and has convened UK pension funds to develop principles for the just transition in emerging market investments.



Public policy engagement

In addition to supporting the public policy engagement of the Institutional Investors Group on Climate Change, in 2022 we launched the climate corporate lobbying standard in collaboration with a large group of investors.



Taking action and manager monitoring

We continue to monitor climate characteristics of the portfolio at an asset manager level, and engage with them to enhance their approach to climate.



Portfolio alignment and testing

A summary of our 2022 climate scenario analysis, stress testing and alignment are included below.



Robust stewardship and engagement

A list of climate-related initiatives is included on [page 17](#). In addition to which, we engage companies directly, voting on the basis of climate assessments at company AGMs and, for example, encouraging companies to publish corporate climate lobbying reviews. We also integrate climate stewardship into our passive investments, through the FTSE TPI Climate Transition Index, which we helped to design and is based on TPI data.

Climate scenario analysis

Stress testing our strategy using climate scenario analysis

The Pensions Board has been carefully considering and testing the impact of climate risks and opportunities. For example, we partnered with Mercer as part of their 'Future Makers Working Group' to produce the report *Investing in a Time of Climate Change* in 2015⁴ and The Sequel report in 2019⁵ both critical reports in supporting the investment industry to understand the impact of climate change on portfolios. We undertook climate scenario analysis and stress testing in 2015 and 2019, and in 2022.

What drives investment-related climate risk?

From an investment perspective, the Trustees view climate change as creating both systemic and idiosyncratic risks and opportunities. That is, risks to the entire global economic system, as well as individual companies within that system. Broadly speaking, on the negative side, there is risk that unchecked climate change will damage the global economy, and risk that individual companies in which we invest will be worse off due to valuation changes, regulatory burden, stranded assets, acute (e.g. storms, fires) and chronic (e.g. water stress) risks manifesting. We believe that investment markets are not fully pricing in climate change risks, due to a range of systemic obstacles including the tragedy of the horizons (time horizon mismatches between capital markets and our beneficiaries climate-related interests), complexity, pricing failures, behavioural economics, and slow adoption of effective stewardship among regulators and within capital markets.

The Board's approach to stewardship directly addresses a number of these obstacles, for example the TPI providing analytical clarity and comparability, the integration of TPI analysis changing incentives, investor networks galvanising collaboration, and the development of a global corporate

climate lobbying standard contributing to improved public policy dialogue through improved alignment between corporations and their industry associations. The rapid transition to a low carbon economy may also benefit a subset of portfolio companies, particularly those offering climate solutions, critical transition minerals and green infrastructure.

Climate scenario analysis – the scenarios

In accordance with paragraphs six and seven of the Schedule of the Regulations,⁶ the Trustees have chosen the following scenarios (and their key assumptions, which are described below), because they test potential impacts on, and resilience of, the Schemes' investments and funding position. The Regulations specify that at least two scenarios are modelled, and that they include at least one scenario that limits the global average temperature increase to between 1.5 degrees and 2 degrees Celsius above pre-industrial levels. The trustees have chosen to model three scenarios in order to cover high and low ambition outcomes, along with orderly and disorderly transitions. Due to the complexity of the modelling involved, and the significant number of variables, assumptions, and estimates involved, the trustees have chosen to report at a relatively high level of analysis.

- **A Rapid Transition** – Average temperature increase of 1.5°C by 2100. Sudden divestments across multiple securities in 2025 to align portfolios to the Paris Agreement goals which have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Following this shock there is a partial recovery. Long-term physical risks are reduced but deviations from the present climate are still expected.

- **An Orderly Transition** – Average temperature increase of less than 2.0°C by 2100. Political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. Transition impacts do occur but are relatively muted across the broad market.
- **A Failed Transition** – Average temperature increase above 4°C by 2100. The world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. These are reflected in repricing events in the late 2020s and late 2030s.⁷ Limited transition risks over and above existing commitments and policies.

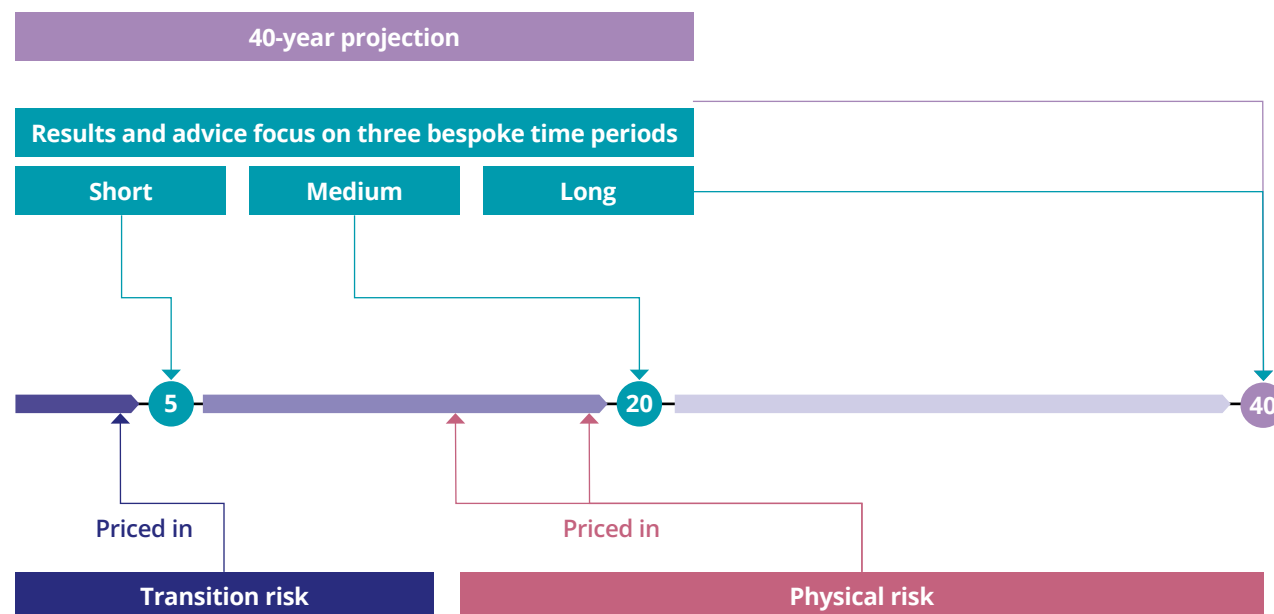
In summary, over shorter time frames (<5 years), transition risk tends to dominate while over longer time frames (20-40 years) physical risk will be the key driver of climate impacts on the Scheme. All of the climate scenarios included in the Strategy Section 'price-in' transition risk over the short term, and two separate physical risk-based shocks over the medium term. The transition risk shock is more pronounced under the 'rapid transition' scenario and the physical risk shocks are more pronounced in the 'failed transition' scenario.

Climate scenario analysis continued

In accordance with paragraph 4 of the Schedule of the Regulations, the Trustees have determined, taking into account the Schemes' liabilities and obligations, that the appropriate timeframes are: Short-term (five years), Medium-term (20 years), and Long-term (40 years). The modelling assumes that at a market level orderly transition risks are reasonably priced in, however longer-term physical risks are more likely to be mispriced. Transition risks remain at sector level and at the market level due to the potential for more extreme transition scenarios to occur. The climate scenario analysis described below applies these timeframes in relation to the Scheme's assets, liabilities and covenant.

The modelled risks and their time frames are illustrated in this diagram:

THE MODELLED RISKS AND THEIR TIMEFRAMES



Climate scenario analysis continued

Results of climate scenario analysis

In accordance with paragraphs 6 and 7 of the Schedule of the Regulations, the following section describes the potential impacts on the scheme's assets and liabilities, identified in climate scenario modelling and stress testing during 2022.

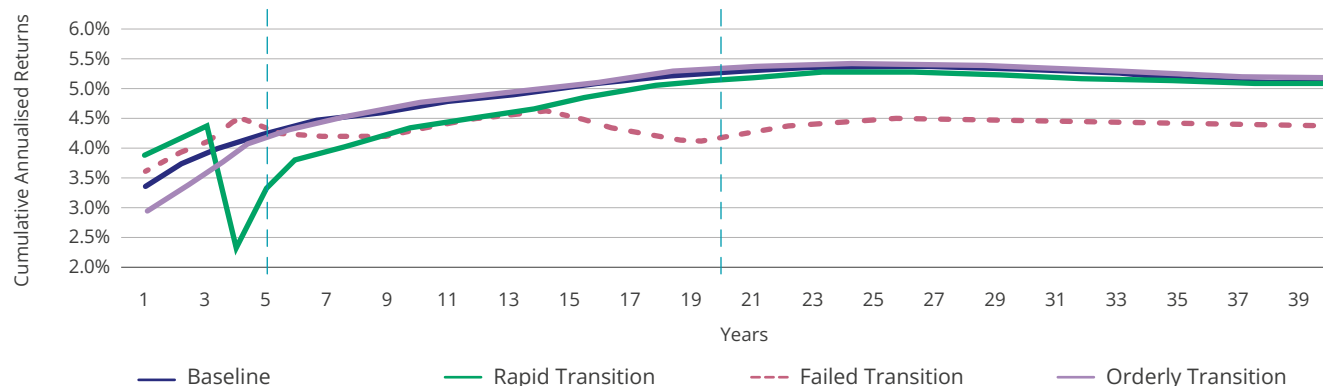
This analysis is based on the Scheme's 2022 asset allocation, and all asset classes are in scope.

The climate model underlying this analysis is the Cambridge Econometrics E3ME climate model, and the baseline Mercer has provided is a 'climate aware' baseline, comprising a mixture of Orderly Transition (40%), Rapid Transition (10%), Failed Transition (10%), and low impact scenarios, which include the potential for the transition to have an overall positive impact (40%).

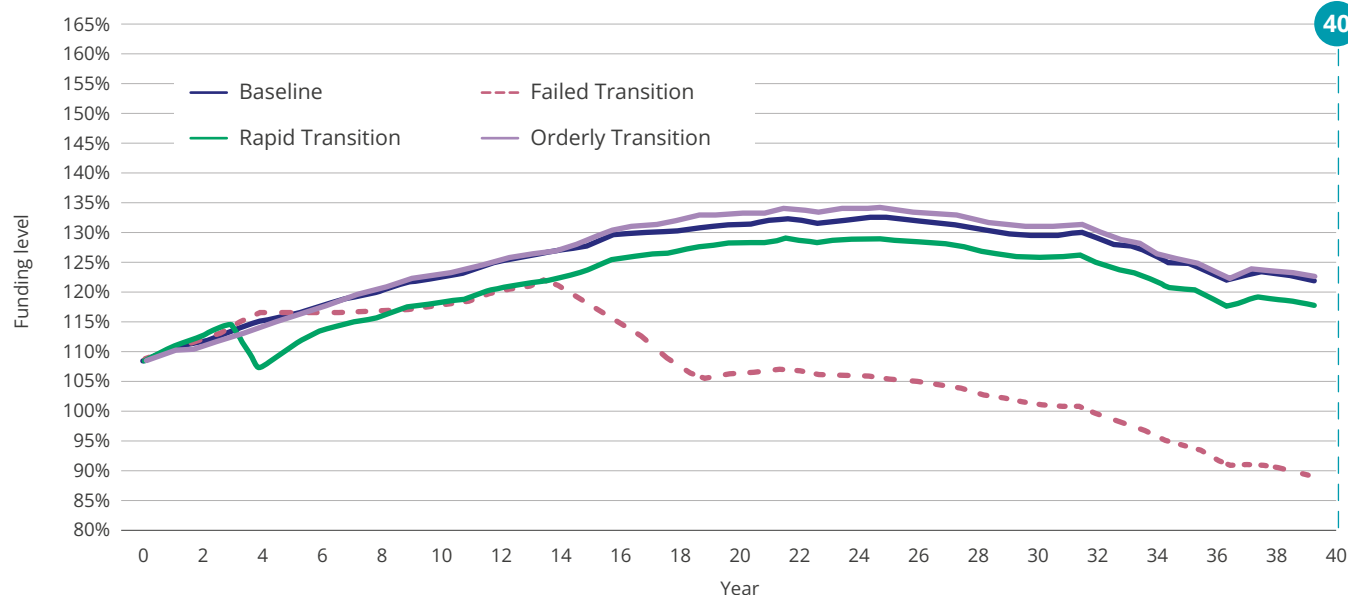
In relation to the assets and modelled funding position of the Clergy Scheme (CEFPS), the Board noted the following highlights:

- The Board's significant allocations to sustainable investments limit the climate impact under a Rapid Transition scenario e.g. a funding level 1.6% higher over five years for the long-term strategic asset allocation (SAA) relative to a comparator SAA without sustainable tilts. Over the medium and long term, the failed transition scenario generates the most significant financial impact, incurring investment return losses between 0.5 and 1% pa. Over a 40-year period, the financial losses arising from a failed transition are estimated to equate to a loss of around a third of the Board's assets relative to a baseline. This is consistent with previous climate scenario analysis undertaken by the Board, and demonstrates a clear fiduciary interest in avoiding a Failed Transition.

CEFPS ASSET-ONLY ANALYSIS CUMULATIVE ANNUALISED RETURNS



FUNDING LEVEL ANALYSIS (LONG-TERM PROJECTION)



Climate scenario analysis continued

- Comparing the Scheme's SAA (which includes allocations modelled as 'sustainable' and with some degree of climate awareness factored in) to a similar SAA without any sustainable or climate-adjusted allocations is instructive as it suggests the position of the Scheme relative to a peer without any climate-related investment decision-making. Across orderly and rapid transition scenarios, our allocations to climate and sustainability investments generate a positive impact, reducing the climate sensitivity of the funding level, with a funding level premium of between +0.4% and +2.1%. Under the Failed Transition Scenario, our sustainability tilt creates a funding level discount of between -0.2% and -0.6% (i.e. a small increase in climate sensitivity of the funding level).
- Though there is a risk of 'spurious accuracy' given the long-term nature of the projection and layers of assumptions, and there is no adjustment made to reflect the dynamic nature of asset allocation (the analysis is based on a snapshot SAA that endures 40 years) the trustees consider that this analysis demonstrates (further) fiduciary interest in avoiding a failed transition.
- A Failed Transition would have a drastic long-term negative impact on the Scheme's financial position, regardless of whether the Board invests sustainably or non-sustainably, since both result in a funding level nearly 33% lower than the Baseline. This gives a clear fiduciary motivation for the Board to seek to avoid a Failed Transition by allocating to sustainable assets and continuing to use its significant influence with global decision makers.

- The consideration of climate risks and opportunities is incorporated into funding strategy decision-making, principally in the context of the CEFPS's surplus. In this context, the Board's view is that there is a good level of risk mitigation in place, and climate-related opportunities can be explored.

Covenant-related analysis and results

While Mercer modelled the impact of the three climate scenarios on the Scheme's funding position, in 2022 the Board commissioned further funding-related analysis, modelling effects on the Scheme covenants. This involved a qualitative assessment of 10 risk categories:

CORRELATION OF RISK FACTORS AND SPONSORS

Identified climate risk factors are unlikely to impact the Sponsors uniformly, given their differing exposure to assets classes, donations and inflation; Broadly Balanced DBFs appear most exposed to climate risk impacts, while property and inflation are clear risks for the majority of Sponsors.

| Risk factor | Asset Reliant DBF | Asset Rich DBF | Broadly Balanced DBF | NCI Reliant DBF | Church Commissioners |
|---------------------------------|-------------------|----------------|----------------------|-----------------|----------------------|
| GHG emissions | ● | ● | ● | ● | ● |
| Access to renewable energy | ● | ● | ● | ● | ● |
| Operational property | ● | ● | ● | ● | ● |
| Investment property | ● | ● | ● | ● | ● |
| Longevity of congregation | ● | ● | ● | ● | ● |
| Longevity of clergy | ● | ● | ● | ● | ● |
| Migration | ● | ● | ● | ● | ● |
| Environmentally friendly trends | ● | ● | ● | ● | ● |
| Donations and parish share | ● | ● | ● | ● | ● |
| Inflation | ● | ● | ● | ● | ● |

- Limited expected exposure
- Medium expected exposure
- High expected exposure

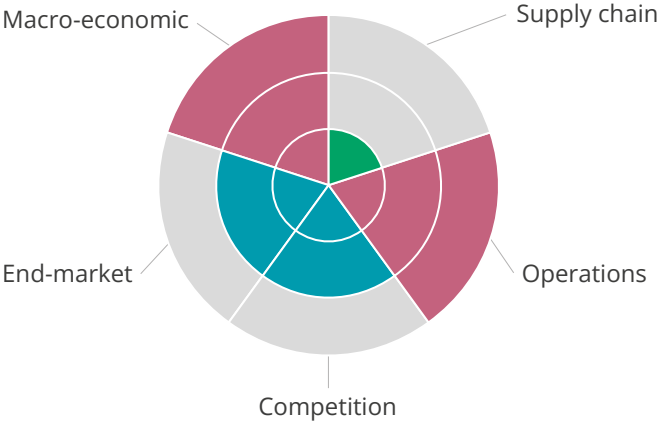
Climate scenario analysis continued

On the basis of how the Scheme’s overall sponsor covenant is supported by the individual Sponsors, and considering the potential manifestation of these risk factors over the short, medium and long term, Cardano made the following assessment, which the Board has taken into consideration:

ASSESSED POTENTIAL BUSINESS RISK OVER TIME

| | Near-term (5 years) | Mid-term (20 years) | Long-term (40 years) |
|---------|------------------------|------------------------|-------------------------|
| Rapid | Medium risk | Medium risk | Medium risk |
| Orderly | Lower risk | Medium risk | Medium risk |
| Failed | Medium risk | Higher risk | Higher risk |

TRANSMISSION CHANNEL EXPOSURE
IN FAILED TRANSITION SCENARIO



Overall, over the medium and long term Cardano identify ‘medium risk’ to the covenant under rapid and orderly transition scenarios, and ‘higher risk’ in a failed transition scenario.

The key driver over the short term is the cost of aligning property to net zero. Based on the Sponsors’ total operational property value (£3,271m) and the average emissions of a household (8.1tCO₂ per £292,000 property), the potential cost Cardano calculate of offsetting all emissions could range from c.\$6m to c.\$68m per annum. This is treated as a potential strain to the sponsors. We note the 2022 announcements from the Church Commissioners which release funding to improve operational emissions across the Church of England. This additional net zero funding was not factored into the covenant analysis.

Over the medium and long term, macro-economic and physical risk-based impacts dominate. The analysis identifies that three of the five largest Responsible Bodies (excluding the Church Commissioners) are expected to be exposed to both flooding and extreme heatwaves by 2050.

This analysis coheres with Mercer’s analysis that the Board operates under strong fiduciary reasons to avoid the failed transition scenario, and that the investment and funding strategies are more resilient under rapid and orderly transition scenarios.

The Trustees have noted a number of recommendations made by Cardano in relation to developing the analysis, including a suggestion that the Board may wish to undertake an assessment of the impact of climate change on mortality, as this is a key component of Scheme liabilities and the covenant of the Sponsors. The funding position agreed at the December 2021 valuation was based on mortality assumptions that have climate

information incorporated into them in line with LCP’s central assumptions.

Limitations of climate scenario analysis

The Trustees note that the multi-dimensional nature of climate change makes it challenging to form a reliable comprehensive view as to which risks and opportunities will affect the Scheme’s investments directly. Nor is it easy to identify which climate scenario pathway the global economy will follow. The following limitations (which might apply to the investment, funding, and/or covenant scenario analysis undertaken) were considered:

- Climate risks are manifested in the form of economic shocks/impairments which may not fully account for the full systemic nature of the risks posed by climate change. There are a range of risks that it is not possible to model and/or are not included in the analysis. These include for example intersecting risks (where overlapping/intersecting impacts would cause increased harm), and cascading risks (where the realisation of some climate-related impact acts as a tipping point which exacerbates some future risks and changes the set of possible outcomes for the worse), both of which have the potential to multiply impacts in particular locations, affecting sectors or regions.
- **Scenario uncertainty:** Any climate scenario only reflects one possible way to achieve a certain temperature goal, while in reality many different scenarios are possible for the same temperature outcome.
- **Model uncertainty:** Different models lead to different results, due to different model structure and assumptions.

Climate scenario analysis continued

- **Uncertainty around assumptions:** For example, ambitious scenarios depend on future (negative emissions) technologies such as carbon capture and storage.
- **Gaps:** On the other hand, certain necessary changes to achieve zero emissions are currently not included in most models, such as changes in lifestyle (e.g. plant-based diets) or economic systems (e.g. circular economy). Furthermore, certain high-risk impacts cannot be covered in most models, such as impacts of sea level rise, migration, health and tipping points in the climate system.
- **Limitations of the macro-economic model used (E3ME):**
 - Land use is not included; therefore, high use of Bioenergy and Carbon Capture and Storage (BECCS) in the energy mix is modelled to offset hard-to-abate emissions. Note that fossil fuels + CCS results in zero emissions, while bioenergy + CCS results in negative emissions.
 - E3ME is an econometric model, so it can only include technologies that already exist, and where sufficient data is available to make assumptions on future changing costs.
- Liability projections allow for interest rate and inflation impacts across the scenarios. To the extent interest rate and inflation exposures are unhedged, this will impact funding level projections.
- Any assumptions underlying the Liability Benchmark Portfolio regarding financial (e.g. RPI/CPI wedge) and demographic assumptions (e.g. lack of transfers and long-term improvements in mortality) are expected to play out as expected.

- For the avoidance of doubt, the analysis presented in this report does not take into account scenario specific impacts upon longevity. Initial research commissioned by Mercer suggests that climate impacts, solely from temperature changes (e.g. hot/cold related deaths), are unlikely to significantly impact a typical UK DB scheme's funding. This does not, however, take into account wider macro-economic and health-related impacts of climate change. This remains an area of active investigation and the expectation is that this will be incorporated into future analysis.
- The analysis is based on a current snapshot of the portfolio and underlying investments. It does not, therefore, take into account changes to the Scheme's asset allocation that would take place over time (for example the de-risking that would take place if the Scheme were more than fully funded).
- As the analysis is 'top down' (i.e. its focus is asset classes rather than underlying holdings) the model does not capture individual company climate commitments, nor changes to these over time, though sustainable asset classes are modelled to have lower climate sensitivity in general).
- Mercer's analysis relies on mapping our actual SAA to a selection of similar modelled funds/asset class exemplars within their model. Given the use of our restricted list (which removes some high-emitting companies), the FTSE TPI Transition index (which includes tilts and rules to underweight companies that perform poorly on climate metrics), trustees take the view that our portfolio is likely to be better aligned than the modelled portfolio (offering further short-term protection).

Historical analysis

The trustees, recognising the methodological challenges inherent in climate scenario analysis, note the positive outcome but put little emphasis on prior assessments. In 2020 analysis identified that we could expect the strategic asset allocation of the Board's common fund (of which the CEFPS is a significant part) to benefit under a 2°C scenario, achieving a +3.4% return benefit on a cumulative basis by 2030 (Mercer analysis, 2020), negligible impact under a 3°C scenario and negative in a 4°C scenario. Stress testing analysis of the Board's portfolio (as opposed to the SAA) conducted in 2020 indicated that even under an 'immediate 1.5 degree' scenario, we should expect a modest positive uplift in valuations (approx. 1%), relative to reductions in valuation for our baseline (2019) and benchmark portfolios of -4 to -5% under the same scenarios (Vivid Economics analysis 2020).

Risk management

In accordance with paragraphs 12 and 13 of the Schedule of the Regulations, this section outlines the processes by which the Trustees identify, assess, monitor, and manage climate-related risks that are relevant to the Scheme, and describes how the processes are integrated into the trustees' overall risk management.

The Board operates three levels of climate-related risk management. These are:

- Board Level
- Investment Strategy
- Investment Implementation and Stewardship

Board Level:

At the Board level a dedicated line item is devoted to climate change in the Board's risk register, which is 'Failure to understand and respond to the paradigm shifts caused by climate change'. This register is actively maintained by the Board and its Audit and Risk Committee, and regularly updated. Risks are managed at this level through a determination of the likelihood and impacts of risks materialising and impacting the Scheme, the consideration and adoption of appropriate mitigating controls (along with a suitable executive 'owner'), and where required, actions are taken to avoid, transfer or accept the risks. In order to assist it with monitoring and managing emerging risks, the Board receives advice at least annually in relation to the employer covenant which takes into account possible climate-related risks. The Board's broader climate strategy is reviewed annually.

Investment Strategy:

At the level of investment strategy, monitoring and assessment is focused on climate-change scenario analysis (conducted periodically, every 2/3 years), monitoring emissions through carbon foot-printing and carbon

intensity metrics, which are reported at the Scheme level annually, monitored at the asset manager level quarterly. Risks are managed through trustee decision-making on the basis of risks and opportunities identified. As an example of climate-related decision-making at this level, the development and selection of the FTSE TPI Climate Transition Index for the Scheme's passive investments in 2019 provided a way to integrate investment strategy with climate considerations.

Investment Implementation and Stewardship:

At the level of investment implementation and stewardship the Board integrates climate considerations into the selection and appointment of asset managers, monitors their climate commitments (across asset classes, reported to the Investment Committee quarterly), and their climate performance forms part of our manager engagement programme. The Board receives a report on investment and responsible investment activity at every meeting.

Scheme-related stewardship activities are not confined to the selection, appointment, monitoring and engagement of asset managers. As described above, the Board's Stewardship team undertakes system level engagement, deliberately attempting to lead and catalyse an improvement in climate risk-related activity in the wider financial ecosystem, and ultimately the real economy. For example, co-founding and continuing to Chair the Transition Pathway Initiative, which provides the investment industry (and the public) with a decision useful assessment of the climate transition alignment of 599 of the highest emitting corporations. TPI is now supported by investors with more than \$50 trillion AUM. A list of other climate-related initiatives is included below. The stewardship team engages directly with companies

in the portfolio on the basis of TPI assessments (and other climate-related assessments) seeking directly to manage climate-related risk. For example, if a company receives a poor TPI management quality assessment or does not disclose or is misaligned in its targets, it will be underweighted in the Scheme's passive investments, and in addition to proxy voting on climate-specific resolutions, will be subject to a vote 'against' the re-election of the Chair. In this way we are able to use our influence to mitigate climate transition risk in the portfolio. Finally, stewardship activities aim to bring about decarbonisation in the real economy and improve climate change disclosure, both directly (direct and through collaboration with other investors, as outlined on page 16).

FTSE TPI CLIMATE TRANSITION INDEX

The Board's passive equity investments track the FTSE TPI Climate Transition Index, which the Board's stewardship team helped to design, in collaboration with FTSE Russell. A 'passive' index is attractive to an investor who wants to limit the number of transactions (buying and selling) within their portfolios, which helps to minimise their costs. This is in contrast to 'active' investment strategies, which are generally more expensive as they involve numerous complex trades and more fluctuation in the stocks that are held. This index integrates five different climate adjustments into its methodology, in order to mitigate climate transition risk. These are:

Fossil fuel reserves

Underweight companies with fossil fuel reserves.

Carbon emissions

Over/underweight companies according to their greenhouse gas emissions whilst applying sector neutrality.

Green revenues

Overweight companies generating revenues from the global green economy.

Management quality

Over/underweight 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

Over/underweight companies according to the extent they are committed to carbon emissions pathways that are aligned with 2-degrees or below-2-degrees Celsius warming scenarios.

The Board views carbon performance as particularly important, because it is a forward-looking assessment that identifies companies' commitment to transition. If a company does not disclose enough data to allow TPI to make an assessment, and if a company's transition plan is not in line with the Paris Commitments, the company weighting is reduced to '0' in the index. This is a de facto exclusion, which is also applied to all of the Board's public market investments (active equities and bonds).

Climate-related activities

Transition Pathway Initiative (TPI)

The Board co-founded the TPI and continues to chair this US\$50trn AUM investor tool that assesses 599 publicly listed companies on transition risk, both in relation to management quality and future carbon performance.

Climate Action 100+ (CA100+)

The largest engagement coalition of investors ever assembled coordinates efforts to mitigate transition risk at the world's largest and highest carbon-emitting companies. The Board leads on engagement with European Auto manufacturers, and co-chairs the mining and steel working groups that are developing net zero standards for these sectors.

The Global Standard on Responsible Climate Lobbying

The Board co-chaired the development of the this Standard (climate-lobbying.com), which identifies best practice in corporate climate lobbying disclosure. The Standard supports companies and investors to assess the governance and practice of corporate climate lobbying and consistency with company commitments to support the Paris Goals. Fifty-five of the largest emitting companies now regularly review their climate lobbying and report annually on progress. The Standard was launched in 2022 with the support of the world's investor networks.

Assessing Sovereign Climate Opportunities and Risks (ASCOR)

ASCOR is an initiative the Board co-chairs alongside the BT Pension Scheme. The initiative is developing a public standard assessment framework for sovereign issuers, to enable improved understanding of the risks and opportunities within Sovereign bonds. The resulting assessment tool will support investor stewardship in this asset class.

Deforestation

During the Scheme year, the Board published a new policy on ethical investment in relation to deforestation, and began a deforestation stewardship programme conducting a portfolio assessment of exposure to deforestation.

Financing a Just Transition Alliance (FJTA)

We are a member of this coalition of 40 investing institutions and banks, coordinated by the Grantham Research Institute at London School of Economics, which works to support a just transition in key energy-intensive sectors so that workers and communities are not left stranded by climate policies.

Institutional Investors Group on Climate Change (IIGCC)

The IIGCC is a European coalition of over 370 investors across 22 countries (€50 trillion in assets) acting to address climate change. We sit on IIGCC's board and co-chair the Corporate Programme overseeing European-wide engagement with companies.

The Board founded an initiative within IIGCC, the Paris Aligned Investing Initiative to develop a Global Net Zero Investment Framework (NZIF), so that investors can have a common framework to set net zero targets. The Board continues to co-chair the Global Asset Owner Steering Committee together with Europe's largest pension fund APG for ABP.

Powering Past Coal Alliance (PPCA)

We are a member of the PPCA, which works to advance the transition from unabated coal power generation to clean energy.

Just Transition in Emerging Markets

During the Scheme year, the Pensions Board convened 12 UK pension funds (representing 18 million members with assets of £400bn), who committed to collaborate to support the climate transition in emerging markets. The group published a consultation on a set of principles on a just transition in emerging markets, in order to support investment decision-making, investment stewardship approaches, and future allocations to emerging markets.

Metrics and targets

The selection of metrics and targets

1. The Pensions Board uses, as described above, a range of different monitoring and internal reporting methodologies to monitor and manage climate related-risk in the portfolio. In addition to the regular flow of climate-related data that informs trustee and executive decision-making, the trustees are required by regulation to select, track and report certain climate metrics, with a view to using the metrics to identify and assess climate-related risks and opportunities that are relevant to the Scheme.

2. The Trustees, in this first year of reporting, have chosen to report on a range of metrics, some applying across a number of asset classes (for example weighted average carbon intensity), others specific to a single asset class (for example our sovereign bond-related climate metrics are not appropriate in other asset classes).

3. It is important to note the relationship between the Pensions Board's common fund, the Scheme in scope for TCFD reporting (the CEFPS), and the various climate metrics described below. Due to the unitisation process that allocates proportional ownership of the common fund to various pension scheme (including CEFPS), intensity metrics and portfolio alignment metrics will apply equally to all of the pension schemes that make use of the common fund. Absolute emissions data, however, needs to be divided according to the proportion of the common fund owned by the various Schemes. Were we to aggregate climate metrics across asset classes, as we may do in the future, the different asset allocations (the relative proportions invested in different asset classes due to the differing risk/return budgets of the schemes) would need to be taken into account.

| Metric | Description | Rationale for inclusion |
|---|--|--|
| Absolute emissions (also described as total carbon emissions) [tCO₂e, Scope 1 and 2] | Total carbon dioxide and carbon dioxide equivalent greenhouse gas emissions (CO ₂ e) measured in tonnes attributable to the portfolio. A more detailed description of Scope 1,2 and 3 data is included in the appendix. | <ul style="list-style-type: none"> Recommended by statutory guidance. This metric is useful in terms of a baseline, but for a scheme that is still open and growing, may be challenging to manage because any portfolio growth (whether or not the investments are aligned to the transition) will increase the measure. Furthermore, this number is highly sensitive to asset allocation changes, where an artificial reduction can be achieved if funds are allocated from public equity to other asset classes without good data. |
| Carbon footprint (also described as financed emissions) [tCO₂e/\$m invested, Scope 1 and 2] | The amount of carbon (CO ₂ e) emitted per million US dollars invested. | <ul style="list-style-type: none"> Recommended by statutory guidance. This common carbon intensity metric can be used to compare portfolios of different sizes. This metric does not factor in the carbon efficiency of individual companies' outputs. |
| Weighted average carbon intensity (WACI) [tCO₂e/\$m revenues, Scope 1 and 2] | The amount of carbon (CO ₂ e) emitted, normalised per million US dollars of company revenues | <ul style="list-style-type: none"> This common carbon intensity metric is used by the TPI in its assessment of the carbon performance of companies, and TPI assessments have been incorporated into the Board's climate stewardship strategy and tools. This metric is useful because it provides portfolio-weighted exposure to emissions in a similar way to other measures of investment risk, such as market beta. It enables comparison between portfolios and sectors and against benchmark data. The metric also highlights portfolio exposure to carbon intensive companies, however revenue volatility (particularly in high emitting sectors) may add complexity when making assessments over time. |
| Portfolio data coverage [%] | The proportion of a portfolio (amount invested) that is covered by the relevant data | <ul style="list-style-type: none"> This metric identifies gaps in data. |
| Portfolio alignment [%] | This metric shows the proportion of portfolio investments that are aligned to net zero. | <ul style="list-style-type: none"> There is little consistency across the wide range of portfolio alignment methodologies that are available for pension funds. The methodology the trustees have chosen is based on the alignment of portfolio companies' forward-looking carbon performance assessments relative to the net zero benchmarks identified in TPI analysis. This tracks companies' future contribution to climate change, relative to sector-appropriate carbon budgets. The result is a simple measure of the proportion of aligned investments in the portfolio. Due to the limited scope of data available relative to the portfolio, this is best assessed relative to a benchmark. A Portfolio Alignment Metric is required under the legislation. |

Metrics and targets continued

CEFPS Metrics

The following metrics are drawn from the data provider MSCI.

| | 2019 | | 2020 | | 2021 | | 2022 | |
|--|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
| | Equity portfolio | Bond portfolio | Equity portfolio | Bond portfolio | Equity portfolio | Bond portfolio | Equity portfolio | Bond portfolio |
| Weighted average carbon intensity (tCO ₂ e/\$M Sales) | 142.2 | 13.5 | 83.1 | 15.1 | 67.5 | 12.9 | 65.4 | 32.7 |
| Weighted average carbon footprint (Scope 1 and 2) | 170.29 | 0.58 | 77.12 | 1.06 | 76.70 | 1.64 | 68.04 | 2.19 |
| Data coverage by amount invested | 92.45% | 4.43% | 89.27% | 5.56% | 91.53% | 8.28% | 92.62% | 19.00% |

Absolute emissions

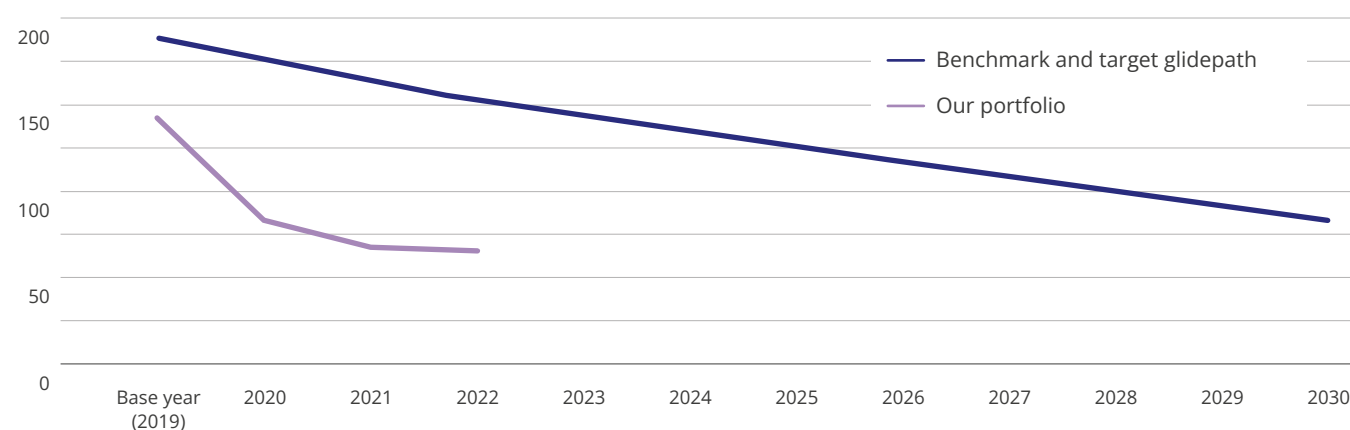
The Common Investment Fund's equity portfolio generated 48,131 tCO₂e (portfolio data as of 31 December 2022). The CEFPS Scheme 'owned' 85.75% of the common fund at the end of 2022, which equates to 42,716 tCO₂e. In prior years, the common fund's tCO₂e amounts were: 240,134 tCO₂e (2019), 111,090 tCO₂e (2020) and 108,599 tCO₂e (2021). The CEFPS's proportion of those emissions was 77% (2019), 79% (2020) and 79% (2021) respectively. Data coverage (%) is the same as reported for public equity WACI/WACF above. This is because the data provider is the same, for consistency.

Targets

4. The trustees have set a public equity decarbonisation target using the weighted average carbon intensity metric, that the portfolio will fall below a transition curve based on a year-on-year improvement of at least 7%, beginning with a 2019 benchmark (MSCI ACWI). This target decarbonisation pathway is shown in the blue curve (right), and the portfolio's emissions intensity is shown in the purple curve. The Scheme is currently ahead of its relative target.

EMISSIONS INTENSITY TARGET TO 2030 VS PORTFOLIO PERFORMANCE

Weighted average
Carbon intensity
(tCO₂e/\$m sales)



Metrics and targets continued

Note on corporate bond metrics and target

5. Compared to public equity data, the Scheme's bond portfolio metrics suffer from extremely low data coverage percentages, and significant changes in the data coverage over time.

6. This has the effect of distorting the trend, which we would expect to be comparable to the trend in public equity, given that the climate-related exclusions the fund has applied are applicable both to the equity and bond portfolio (as described above). The trustees believe that it is not possible to assess with a meaningful degree of reliability, based on the current data provision, whether the bond portfolio is decarbonising in line with its 7% year-on-year reduction (from the 2019 benchmark level). This will remain under review.

Data quality, scope and limitations

7. Emissions data are continually improving, and we expect significant advances year-on-year. The Pensions Board is actively working on the development of metrics and targets they apply to our own schemes, and is active in the investment industry on the development of relevant data and assessment frameworks, for example through TPI, the Institutional Investors Group on Climate Change (IIGCC), Assessing Sovereign Climate-related Opportunities and Risks (ASCOR), and as described above and in our Stewardship Report.

8. In terms of how far the reported data covers the entirety of the CEFPS investments, the following table shows that:

| Asset Class | % CEFPS portfolio at 31 December 2022 |
|--------------------------------|---------------------------------------|
| Public Equity | 30.75 |
| Real Estate | 9.6 |
| Private Equity | 5.1 |
| Infrastructure | 15.7 |
| Private Debt | 6.6 |
| Emerging Market Sovereign Debt | 2.65 |
| Alternative Income | 1.46 |
| Cash | 2.7 |
| LDI | 17.18 |

9. The trustees have, as far as they are able, obtained Scope 1 and 2 GHG emissions data. Unfortunately, gathering reliable Scope 3 emissions data remains challenging due to poor data quality, non-standardised reporting, changing estimation methodologies, and the risk of double counting.

10. The Board purchases third-party emissions data, however, this only covers equity and corporate credit investments. We are working with our asset managers to provide comparable and methodologically consistent carbon emissions data, however we note that some managers have been unable to provide any 2022 climate reporting, even by the end of Q1 2023. With a view to consistency and comparability, this report has focused on third-party emissions data and analysis. This is a major engagement issue for us with our managers.

11. As a stark illustration of the general point being made in relation to the importance of consistent methodology, when we input the very same 2022 portfolio data into two third-party data systems, markedly different results emerge:

| | Benchmark and target glidepath | WACI (Analysis A) | WACI (Analysis B) |
|------------------|--------------------------------|-------------------|-------------------|
| Base year (2019) | 187 | 203.5 | 142 |
| 2020 | 173.9 | 91.6 | 83 |
| 2021 | 160.8 | 74.3 | 67.5 |
| 2022 | 149.6 | 65.4 | 65.4 |

12. Though the cause of this apparent discrepancy is straightforward to explain (differences in portfolio coverage over time, differences and changes in assumptions used etc.) the variance of more than 25% in one year is dramatic and indicates the level of caution that should be applied to the metrics in this report. Analysis B is presented in the table above, though prior years' stewardship reporting used analysis A. Analysis B has been selected in 2022 because it enables 'look through' into the underlying company assessments, and includes portfolio coverage data.

13. Unlike public markets, gathering GHG data for other asset classes and reviewing methodological consistency remains time consuming and costly.

Metrics and targets continued

14. Infrastructure, private debt and private equity suffer from material data gaps and a lack of methodological consistency. However, we are members of the ESG Data Convergence Initiative, hosted by the Institutional Limited Partners Association. Only in its second year, we are supporting this initiative to standardise ESG data disclosure (including climate metrics) across private markets. The project so far has been gathering data to create a first-of-its-kind ESG benchmark for private markets, which will provide a useful comparator.

15. Our property investments are managed in a fund-of-funds, and with this additional degree of intermediation, accessing good quality reportable climate metrics has proven challenging.

16. In terms of other asset classes, Sovereign Debt accounts for a substantial percentage of the Scheme's assets. Gilts and LDI accounts mainly comprise UK sovereign debt (gilts), and our emerging market debt account is invested in sovereign bonds. The UK Government is committed to Net Zero by 2050, and while we engage with UK policy-makers on climate change (for example through participation in HM Treasury Transition Plan Taskforce), tracking the climate metrics of these assets is not as high a priority relative to our other investments. We are able to report metrics for our emerging market debt portfolio, relative to an appropriate emerging market index (see below), however, in order more effectively to understand and assess climate risk and opportunities in sovereign asset classes (including both UK and emerging market allocations), we set up and are co-Chairing the ASCOR project (Assessing Sovereign Climate-related Opportunities and Risks), which is currently piloting a methodology and metrics that we will apply to our holdings. The pilot of the methodology will be applied to 25 countries later this year before wider universe

EMERGING MARKET DEBT CLIMATE METRICS

| | Portfolio | Index |
|--|-----------|-------|
| CO ₂ per capita emissions (ton CO ₂ /cap/yr) x MV% | 3.95 | 4.54 |
| CO ₂ per GDP emissions (ton CO ₂ /1k\$/yr) x MV% | 0.23 | 0.22 |
| GHG per capita emissions (CO ₂ eq/cap/yr) x MV% | 6.48 | 6.97 |
| GHG per GDP emissions (CO ₂ eq/1k\$/yr) x MV% | 0.39 | 0.36 |

Data source: EDGAR – Emissions Database for Global Atmospheric Research

assessment in 2024. We will though be able to use the results partly to inform our future TCFD reporting.

17. Finally, our Alternative Income allocation is a relatively unusual investment in private equity asset managers. There are no clear guidelines or standard methodology for how to attribute carbon emissions data within this form of investment. We have engaged the asset manager on this point over time and some climate data was provided for the first time in early 2023. The data relates to 2021 so is not included in this report. We continue to engage with the manager on climate stewardship (they offer ESG support and services to the portfolio asset managers, including in relation to climate metrics), and on the development of their climate data systems.

Portfolio alignment methodology

18. The trustees have chosen to report a portfolio alignment metric, expressed as a %, that is based on a novel methodology entitled “cumulative benchmark divergence”, that has been developed by Dan Gardiner,

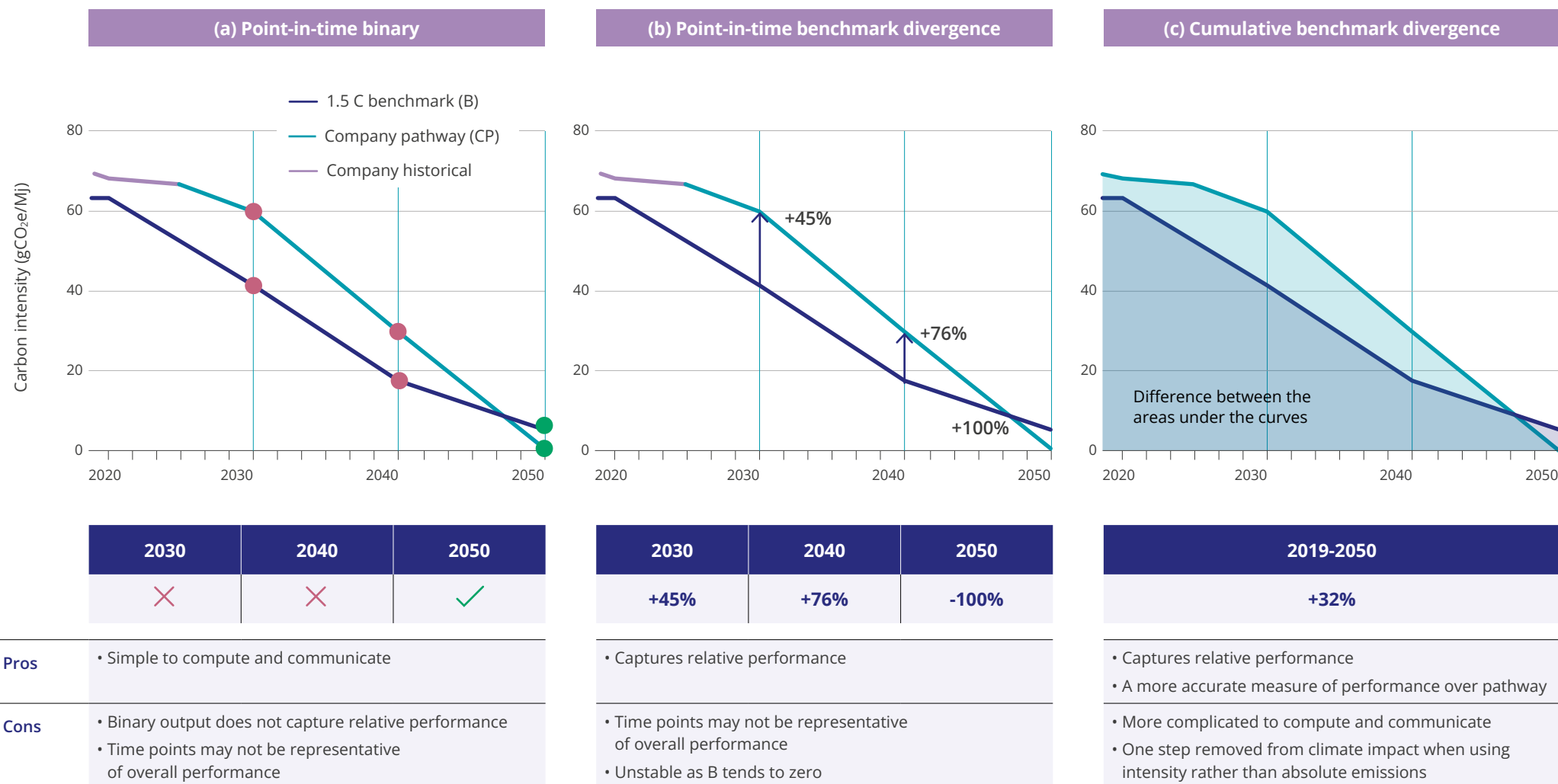
Dr Sam Cornish, and Dr Adrian Fenton, all of IIGCC. Full details of the methodology, including reflections on areas of improvement, are available on the IIGCC platform⁸.

19. Portfolio alignment methodologies in general resist concise and accessible descriptions, and this methodology is relatively straight-forward. Essentially, once it is possible to plot the forward looking climate commitments of companies (TPI's carbon performance assessment), and a net zero decarbonisation benchmark on the same axes, it is possible to measure alignment in three ways, firstly by looking at a point in time (e.g. whether or not a company decarbonisation pathway is above or below the net zero benchmark in 2050), secondly by measuring how far above or below the benchmark a company's decarbonisation commitments are above or below the benchmark at a particular point in time (expressed as a percentage + or -) or thirdly, by capturing the divergence (amount above or below the benchmark) over time, resulting in a single percentage score that measures performance over time, and against a net zero pathway.

Metrics and targets continued

COMPARISON OF CARBON PATHWAY ALIGNMENT ASSESSMENTS

A company carbon intensity pathway is compared to a 1.5°C sector benchmark from a base year (2019) to 2050, using: (a) a point-in-time binary approach; (b) point-in-time benchmark divergence metrics; (c) a cumulative benchmark divergence approach.



Metrics and targets continued

20. This analysis can be conducted at the individual issuer level, where it is helpful in addressing cases where a company's decarbonisation plan relies on sudden sharp improvements (e.g. in technology) in the late 2040s in order to achieve net zero alignment by 2050.

21. The methodology can also, and importantly for our purposes, be aggregated across a portfolio to create portfolio weight-adjusted benchmark divergence percentages, and emissions-adjusted percentages. In this way we are able to measure (to a limited degree) forward-looking alignment with a 1.5 Degree pathway, quantitatively compare our alignment with relevant comparators, and use the analysis/methodology to support stewardship and our engagement with underlying holdings (so there is a consistent methodology being used at company and portfolio level).

22. The scope of the underlying data is a common theme in this report, and is also true here, where the underlying data typically only covers 40% of the total portfolio by emissions, and less than 10% by number of companies and market capitalisation.

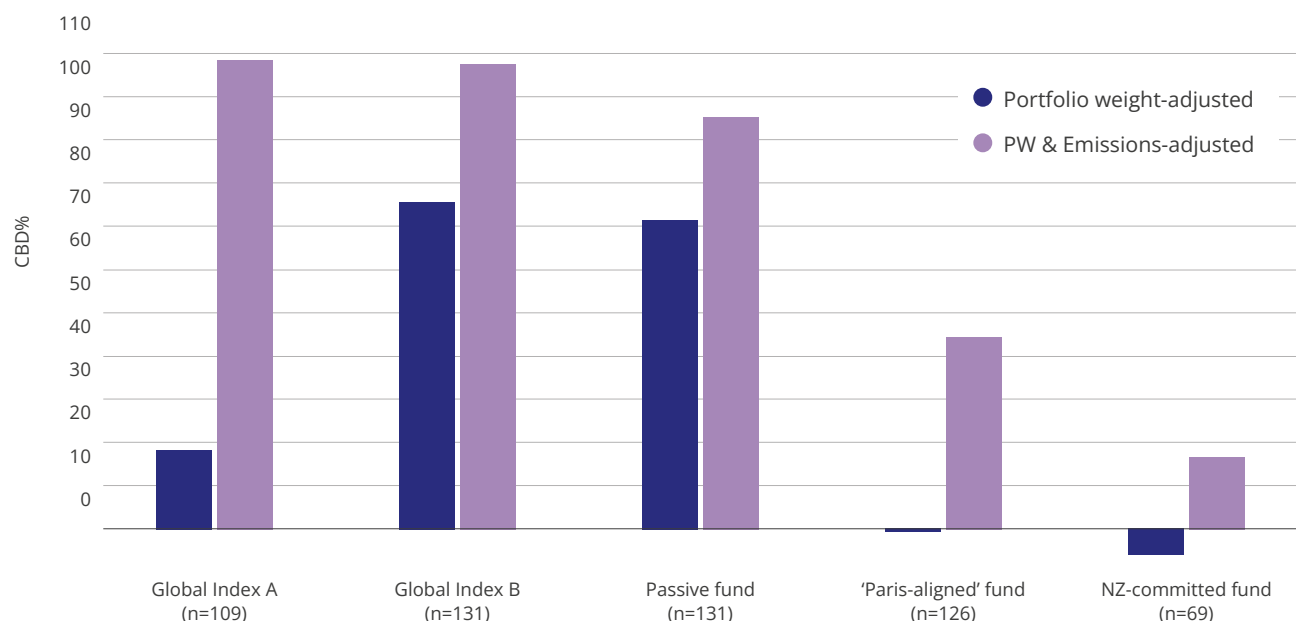
Portfolio alignment outcome

23. The Pensions Board equity portfolio can be considered aligned, achieving a cumulative benchmark divergence of -5.9% when the scores are aggregated by portfolio weight. However, when emissions are included in the weighting, the score increases to 16.3%, implying a degree of misalignment.

24. In order to support the interpretation of these figures, relevant comparators are included in the chart below. The Pensions Board's equity portfolio is labelled 'NZ-committed fund', and is on the right hand side.

PORTFOLIO CBD SCORES

Calculated across two global indices, a passive fund, a 'Paris-Aligned' fund, and a 'Net zero (NZ) committed' fund. Note how the number of stocks covered by the analysis, n, changes across the assessments. A lower score indicates a higher degree of alignment with a 1.5°C pathway. Aggregated CBD scores are weighted either only by portfolio weight (PW; blue columns), or by both portfolio weight and current emissions (lilac columns), according to a sectoral approach for counting emissions scopes.



25. As you can see, the Board's climate alignment compares very favourably to global indexes, the passive fund, and even the 'Paris Aligned' fund (managed to meet the European Paris Aligned Benchmark designation).

26. Data coverage remains a concern, and limitation. Out of 1,139 equity holdings, 69 were covered by the underlying analysis (compared to 109 companies from a global index that was also assessed) 131 companies (a passive fund), and 26 (a 'Paris Aligned' fund).

27. There is further scope for research, and the Stewardship team is actively supporting IIGCC in the development of this methodology, and the Board has played an instrumental role in working with other asset owners to ensure that TPI can scale the breadth and depth of its carbon performance assessments.

Appendix

EMISSIONS SCOPES

| Source | Description | Definition |
|----------|-------------|--|
| DIRECT | Scope 1 | Emissions from sources that are owned or controlled by the reporting company. |
| INDIRECT | Scope 2 | Emissions from consumption of electricity, heat, steam and cooling. This can be calculated via two methods: <ul style="list-style-type: none">• Location-based refers to emissions calculated through emission rates of the local power grid.• Market-based refers to emissions calculated based on purchasing agreements with electricity suppliers. For most corporates, this tends to result in lower estimations than location-based emissions.⁹ |
| | Scope 3 | Upstream: GHG emissions embedded by processes in the value chain that contribute to a company's products or services. |
| | | Downstream: GHG emissions originating from the activities of customers using a company's products and services. |

Endnotes

- 1 See [Task Force on Climate-related Financial Disclosures 2022 Status Report](#).
- 2 See [EIAG Climate Change Policy](#).
- 3 See EIAG Policy and IPCC (2014), Working Group II – Impacts, Adaptation and Vulnerability. [Summary for Policymakers](#).
- 4 See [Investing in a Time of Climate Change \(2015\)](#), Mercer.
- 5 See [Investing in a Time of Climate Change The Sequel \(2019\)](#), Mercer.
- 6 Schedule, paragraph 27(g) of the Regulations.
- 7 This report includes climate scenario analysis from two sources; that conducted by Mercer (relating to Assets and Funding) and Cardano (Covenant) respectively. Both advisors used “Rapid Transition”, “Orderly Transition”, and “Failed Transition”, and the descriptions above apply to both. In terms of underlying detail and assumptions, the two sources are broadly aligned.
- 8 [IIGCC paper: Assessing climate target alignment with cumulative benchmark divergence – from asset level to portfolio alignment](#).
- 9 Jerry Patchell, [Can the implications of the GHG Protocol's scope 3 standard be realized?](#) Journal of Cleaner Production, Volume 185, 2018, Pages 941-958.
- 10 Greenhouse Gas Protocol. Scope 2 Guidance, accessed 10/03/2022.