Church Commissioners for England

CLIMATE ACTION PLAN

July 2023

CHURCH COMMISSIONERS *for* ENGLAND

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FOREWORD

Responding to the global climate crisis is arguably among the most challenging and important issues facing the world today. In addressing it, we are also acting out of hope, knowing that energy – its responsible production and use in a manner consistent with limiting the average rise in global temperature by 2050 to 1.5°C above pre-industrial levels – is essential to ensuring the healthy, flourishing and just societies we seek. "1.5 to stay alive" must be an anthem for how we conduct our lives today.

As responsible investors, the Commissioners take this duty to respond to the global climate crisis very seriously. Our responsible investment philosophy is underpinned by a desire to see people and the planet flourish. The devastating effects of climate change are already visible. They have a disproportionate impact on the poorest global communities. Therefore, the transition needs to be 'a just in, a just out, and not just us'. Real and lasting opportunities for all in the future will be linked to those engaged with the transition to the low carbon economy, and the urgent change needed.

The approach we take when considering how our investments support the critical transition to a low carbon economy has evolved significantly. Our whole-portfolio approach considers how we can use the levers available to us to influence real-world change in line with the transition to a net zero world. Among other things, these levers include engagement, exclusions, having good processes and investing in solutions. This Climate Action Plan lays out our approach and provides examples from across the portfolio.

One of the areas that gets the most attention is the question of whether to divest or engage. We believe strongly in an approach which includes both engagement and divestment. Indeed, we much prefer to engage where we see the scope for that engagement to bring about the changes we want. Over the last decade, we saw the benefits of taking that increasingly public approach to engagement. An example is the significant role we played in the coalition of responsible investors which in May 2021 helped to replace three of ExxonMobil's board members and thereby brought climate expertise to the Boardroom. At the time it gave hope. Unfortunately, oil and gas companies are still not moving fast enough. To move too slowly on this issue is to regress. As a result, we have decided to exclude fossil fuel companies that do not align with a 1.5°C pathway. Our door remains open for fossil fuel companies that genuinely transform their businesses to align with a net zero world, and indeed that is something we would hope for.

Taking action to combat such a significant and systemic threat as climate change is enormously complex. We have embraced the monumental challenge to achieve a net zero portfolio by 2050, but our target is not just a net zero portfolio – the goal is a net zero world.

At the Commissioners, we believe in the power of example. As an in-perpetuity faith-based endowment fund, we are hopeful and confident in an approach that prioritises both people and the planet.

Alan Smith, First Church Estates Commissioner

"The Church Commissioners strives to work with companies and stakeholders who genuinely want to, and can be part of, the economy's transition to net zero carbon. We believe it is possible to achieve strong financial returns to support the Church of England's mission and ministry, while delivering on our responsible investment ambitions."

Tom Joy, Chief Investment Officer

INTRODUCTION

The Church Commissioners invests the endowment fund it manages responsibly in line with its values and Christian beliefs. The Commissioners' responsible investment approach is based on three systemic risks: climate change, nature loss and social inequality. While we recognise that the issues are connected, we see the three themes as distinct workstreams. This report will focus on climate change by laying out our Climate Action Plan.

In 2020, the Commissioners committed to achieving a net zero investment portfolio by 2050 and aligning with the goals of the Paris Agreement. However, we cannot solve the climate crisis alone. Our target is a commitment to use our available levers to reduce real-world emissions in line with limiting the global temperature increase to 1.5°C. The goal is a net zero world, not only a net zero portfolio. In 2021, we set our first interim target – a 25% reduction in the carbon footprint (measured as CO_2 equivalent emissions (CO_2e) per £mn invested) for listed equity investments and real estate assets in our portfolio by 2025, based on a 2019 baseline. While our emissions reductions target is a core part of our strategy, our approach to addressing climate change is broader, and includes aligning our entire portfolio with a net zero world.

This report outlines the Commissioners' plan to transition to net zero by 2050, in line with our pledge in 2020. It includes a brief history of our approach and outlines how we will implement our net zero strategy today, and in the future, with examples of our work across the Commissioners' investment portfolio. In addition, we have included a summary of the current climate impact of the portfolio. It has been prepared in line with the Glasgow Financial Alliance for Net Zero's (GFANZ) transition plan guideline.[1]

It is our sincere wish that our stakeholders, including different parts of the Church of England (from parishioners to Cathedrals to Church of England Schools), other investors and interested parties read this report to gain an understanding of our approach and work toward helping to address the urgent climate crisis, as we move closer to our target of a net zero world by 2050.

"The goal is a net zero world, not only a net zero investment portfolio."

Photo by Lisa Stevens

THE CHURCH COMMISSIONERS' APPROACH TO CLIMATE CHANGE

The Commissioners' approach to climate change is guided by an ethical perspective, as well as a systemic risk lens framing part of our Climate Action Plan, particularly our engagement programme. We see climate change as both a risk and an opportunity for our portfolio, and we continue to seek investments in climate solutions and manage our exposure to climate-related risks. We have a long history of incorporating climate change into our processes and seeking to influence outcomes.

CLIMATE CHANGE AS A SYSTEMIC RISK

The Commissioners recognises climate change is an urgent crisis and a systemic risk to the global economy. It is likely to affect every person, business and ecosystem on the planet, particularly the poorest and most disadvantaged, unless dramatic steps are taken to transition to a net zero world. Achieving net zero on a global scale by mid-century is vital if we are to have a chance at limiting global warming to 1.5°C relative to pre-industrial levels.[2] This makes climate change and the transition to global net zero a significant disrupting factor to the global economy and affects how investors need to act to meet their fiduciary mandates.

CLIMATE CHANGE AS AN ETHICAL ISSUE

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

The Anglican Communion's Fourth and Fifth Marks of Mission:

4. To transform unjust structures of society, to challenge violence of every kind and pursue peace and reconciliation

5. To strive to safeguard the integrity of creation, and sustain and renew the life of the earth

THE CHURCH COMMISSIONERS' APPROACH TO CLIMATE CHANGE
continued

THE CHURCH COMMISSIONERS' HISTORY OF CLIMATE ACTION

2015
- National Investing Bodies (NIBs) agree a climate change policy
- Excluded companies with more than 10% revenue from thermal coal and oil sands

2017
- Founding asset owner of Climate Action 100+
- Co-founded Transition Pathway Initiative

2018
- Synod Motion on climate change

2019
- Joined the Powering Past Coal Alliance

2020
- Made a commitment for our portfolio to be net zero by 2050
- Founding member of the Investor Policy Dialogue for Deforestation
- Founding member of the Financing a Just Transition Alliance

2021
- Set first interim target – 25% reduction of carbon footprint for listed equity and real estate
- Committed to using best efforts to eliminate agricultural commodity-driven tropical deforestation from our portfolio by 2025

2022
- Collected baseline GHG emissions data for our Real Assets portfolio
- NIBs agreed a deforestation policy
- Updated our responsible investment (RI) policy
- Adopted a new net zero and climate change strategy

2023
- Co-lead the Monitoring, Reporting and Verification track and the Policy track at the Net Zero Asset Owner Alliance (NZAOA)
- NIBs report final outcomes of the engagements and exclusions in response to the 2018 Synod Motion

OUR APPROACH GOING FORWARD

Building on our historical work on climate change and responsible investment more broadly, in 2022 we revised our responsible investment strategy and adopted a new net zero and climate change strategy. We cannot stop climate change ourselves, but we can be an active part of the solution, driving change and influencing our stakeholders to contribute to the energy transition. To that end, we have set short-term climate goals in addition to our long-term target of aligning with a net zero world by 2050, by achieving a net zero portfolio. We regularly update our targets and milestones – we will set new short-term interim targets before 2025. Our focus is on real-world change, so our strategy is guided by three questions:

- How can the real economy get to net zero (real-world change)?
- What are the levers the Commissioners can use to bring about this change?
- How can we maximise our influence?

To answer these questions and prioritise our efforts, we have adopted a framework which sits within our overall approach to responsible investment[4] and is adapted from the Impact Management Project's[5] framework on investor contribution to impact. Our framework includes three levers:

1. Aligning our processes, which is crucial for a system-level change, but the actions in themselves will not cause much impact.

2. Engagement, which ranges from having a dialogue with tenants, to large international companies and policymakers.

3. Investing in solutions that are directly aligned with the energy transition.

THE CHURCH COMMISSIONERS' CLIMATE GOALS

Below are the Commissioners' key climate goals, including our long-term net zero target and shorter-term goals. By signing up to the NZAOA, we have committed to setting interim targets every five years. We will publish new targets in due course.

2018-2023
- Engage with fossil fuel and other high carbon emitting companies and exclude the companies that do not meet the hurdles, in line with the 2018 Synod Motion on climate change[6]

By the end of 2023
- We will exclude companies whose primary business function is derived from exploration, production and refining oil or gas unless they are on a genuine pathway to transition in alignment with a 1.5°C pathway

By 2025
- We will have reduced the carbon footprint (emissions per $mn invested) of listed equity and real estate portfolio by 25%, with a 2019 baseline
- We will use best efforts to eliminate agricultural commodity-driven tropical deforestation from our portfolio

By 2050
- We will aim to have a net zero investment portfolio GHG emissions

OUR APPROACH GOING FORWARD
continued

NATURE LOSS AND CLIMATE CHANGE

This report is focused on our net zero target and our Climate Action Plan, and while we see nature loss as a significant standalone workstream, there is significant overlap. In farmland and forestry, for example, there is alignment between climate mitigation, climate resilience and improving biodiversity and other nature-related factors. In addition, our work on stopping tropical deforestation is crucial to solving the climate crisis, both from a resilience and mitigation perspective. We have therefore included examples of our activities in the intersection between climate and nature action in this report.

A 'JUST TRANSITION'

Moving towards net zero is imperative to avoid the worst impacts of climate change. In addition, the fourth industrial revolution is a shift towards automation and the use of artificial intelligence. These changes in our economies will have big implications for society. A 'just transition' means that people in the most vulnerable economies are not left behind in these shifts and that the risks to people are well managed by both business and Government.

The Commissioners supports a just transition through several workstreams, primarily focusing on engaging with a wide range of organisations:

- We work with the Financing a Just Transition Alliance, which is designed to identify the role that finance can play in connecting action on climate change with inclusive development pathways. It is international in scope, with a dedicated focus on the UK.
- The Commissioners is a lead investor for the Principles for Responsible Investment (PRI) Advance, a $30tn collaboration which is focusing on 40 mining and renewables companies and their approach to human rights. These sectors are critical for the 'transition into' a net zero world and present some of the biggest risks to people in transition. Ensuring these businesses respect human rights is key for a just transition.
- We are engaging with companies that provide sustainability data on companies to improve the quality of human rights data, in order to integrate the information into our voting in a systematic way. This will help us push companies to implement human rights due diligence, a key process to help understand and manage these issues.

ALIGNING OUR PROCESSES

Aligning our processes enables us to address climate change through best practice policies and processes, excluding activities that we do not believe are part of the transition, allocating capital to managers that factor climate change into their investment decisions and participating in industry groups and initiatives addressing the issue. We recognise that these actions may not have an impact in isolation, but they are crucial pieces to influence the efficiency and sustainability of the market more broadly, and can affect real-world change when these practices become more common. We have laid out our key focus areas in aligning our processes, which have been put in place and our key priorities moving forward.

Net zero commitment
Our commitment to having a net zero investment portfolio by 2050 is the cornerstone of our commitment to addressing climate change. Within our 2050 commitment, we also commit to setting interim targets every five years. Having interim and long-term targets guides our policies and practices, and signals to stakeholders that the goals of the Paris Agreement are of critical importance to us. Setting targets publicly is a way for us to show support for net zero-aligned regulation and Government policies as well as climate action by companies.

In 2021, the Commissioners set a target to reduce the carbon footprint of the public equity and real estate portfolios 25% by 2025 based on a 2019 baseline.

KEY PRIORITIES

- **By the end of 2023, exclude companies whose primary business function is derived from exploration, production and refining oil or gas, unless it is on a genuine pathway to transition in alignment with a 1.5°C scenario**
- **Continue to refine our RI integration processes related to the selection and monitoring of external managers**
- **Update our interim targets by 2025**
- **Collect more climate-related information on the portfolio, in terms of quantity and quality**

The carbon footprint is a measure of CO_2 equivalent emissions per £mn invested. The current carbon footprint is 71% lower than the baseline, significantly exceeding the target two years ahead of time. The primary driver is a reduction of emissions in the public equity portfolio (see page 15 for further information on the climate impact of the portfolio).

Policies and governance
To deliver on our climate commitments, we need to have the right policies and governance in place. Our approach to climate change is framed by two policies: the Commissioners' Responsible Investment policy (updated in 2022) and the NIBs' Climate Change policy (updated in 2020). In addition, the NIBs' agreed a Deforestation policy in 2022, which is now a key pillar of our climate and nature preservation work. The NIBs policies are informed by ethical and theological advice from the Ethical Investment Advisory Group (EIAG), which provides timely and practical advice to the three NIBs to enable them to invest in a way that is distinctly Christian and Anglican. The Commissioners' approach to climate change and how we implement our net zero ambition is overseen by our Assets Committee and implemented by the Responsible Investment team in collaboration with the investment and operational teams at the Commissioners.

71%
reduction in carbon footprint compared to a 2019 baseline[7]

ALIGNING OUR PROCESSES
continued

Selecting and monitoring external fund managers with climate change criteria
The Commissioners currently primarily invests through external asset managers. This means that while we can ask them to exclude companies with specific activities, e.g. coal mining, we do not choose the individual companies that go into our portfolio. Therefore, the choice of asset manager is important when we consider our climate goals. We assess our current and prospective asset managers across all asset classes against our proprietary RI Manager Framework, which scores managers across seven categories. Asset managers must meet our minimum expectations in each category to qualify as investable. Climate change is a key part of our RI Manager Framework.

Understanding the climate impact of the portfolio
To align our portfolio with the goals of the Paris Agreement, we need to first understand the current climate impact of our investments. We currently have sophisticated estimates or reported GHG emissions data for almost 60% of the portfolio, of which c. 50% is in a format which we can report.[8] We believe it is important to collect the emissions data of the portfolio to understand where emissions are highest, so we can prioritise our efforts when considering where, for example, to engage, and we continue to work towards increasing the amount and quality of data across the portfolio. However, GHG emissions data does not show the full picture. For example, emission levels do not show whether a product or service provides a solution to climate change, and does not indicate the direction of travel for the company or asset. On page 13, we show how we invest in climate solutions, and from page 15 we show the climate impact of the portfolio. We continue to work on collecting more emissions information – both in terms of quantity and quality – as well as other relevant data. It is a complex process. The data is not perfect, but it is improving over time and we expect this positive trend to continue.

CLIMATE EXCLUSIONS

We think the best strategy to influence change is through engagement. This applies to climate change, our net zero target and other issues of importance. However, while we see change among companies, it is not always on a large enough scale or at a timeline that we deem acceptable. In those cases, we would assess whether we want to continue to engage or avoid the exposure to further risk, which also means giving up our 'seat at the table'. Following a decade of engaging with high-emitting companies, we are taking steps to exclude those that we do not believe are preparing to be part of the energy transition, and instead are focusing our engagement efforts where we see a company that will have a role in the transition. This has led us to the following revised approach to climate-focused exclusions:

- **2015:** Exclude any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from oil sands.[9]
- **2018-2023:** Exclude fossil fuel and other high-emitting companies that have failed the hurdles the NIBs set in response to the 2018 Synod Motion.[10]
- **2023:** By the end of 2023, exclude companies whose primary business function is derived from exploration, production and refining oil or gas, unless it is on a genuine pathway to transition in alignment with a 1.5°C scenario.

We do not take it lightly to exclude fossil fuel companies. Fossil fuel companies could be significant contributors to the solution to climate change, which would make an energy transition smoother. A decade of engagement has resulted in significant improvements and increased ambitions by many companies in the sector in setting climate targets and transition strategies. However, there is also a growing gap between the targets and strategies set out publicly by fossil fuel companies and how they invest their capital.

We have lost confidence in these companies' intention to be part of the energy transition and will exclude them. If these companies make genuine demonstrable and measurable efforts to transition their businesses in line with a 1.5°C scenario, we would be prepared to revisit this decision and potentially remove the companies from our exclusions at a later date.

ENGAGEMENT

We continue to believe that engagement is our most important lever to drive real-world outcomes. We cannot solve the climate crisis in isolation. For the world to align with a 1.5°C pathway, all stakeholders need to be part of the journey. We, therefore, engage with a broad set of stakeholders about this issue. In some cases, the aim is to influence the stakeholder to change its behaviour while in other cases, our engagement might be to share knowledge and enable them to take action. We aim to use our voice as an investor to influence positive change with our portfolio companies and tenants, our asset managers and service providers, as well as within the wider industry and policy landscape. The below examples provide a current snapshot of our engagement approach.

PRIORITY STAKEHOLDERS FOR CLIMATE ENGAGEMENT

- Tenants across the Real Assets portfolio
- Key engagements with large public companies
- External asset managers
- Policymakers
- Key industry initiatives that drive climate action

Farmland: Supporting tenants with challenges of farming on lowland peat

In May 2023, the Commissioners hosted farming tenants from across the Fens at a workshop, facilitated by Fenland SOIL, to discuss the current challenges and opportunities of farming on lowland peat. One third of England's fresh produce is produced in the Fens, yet there are considerable greenhouse gas emissions associated with farming this soil type. Fenland SOIL brings together farmers, landowners, and academics, giving them the opportunity to discuss future land use policies on this unique landscape. Fenland SOIL also provides farmers in the Fens with a seat at the table when discussing the future of food production on lowland peat with Defra. The Commissioners will continue to work with tenants and Fenland SOIL to further discuss the key challenges and opportunities for lowland peat going forward.

Public equity: Engaging with asset managers on net zero

We continuously engage with asset managers to improve their practices against our proprietary RI Manager Framework. This includes engaging asset managers on their approach to climate change. In 2022, one of our key asset managers joined the Net Zero Asset Managers initiative, committing to net zero portfolio emissions by 2050.

Public equity: Voting against directors at fossil fuel companies

In May 2023, the Commissioners announced that it would vote against directors at the next Annual General Meetings (AGM) of ExxonMobil, Occidental Petroleum, Shell, and Total in response to their failure to set adequate climate change objectives. This followed many years of actively engaging with fossil fuel companies in an effort to increase their ambitions to set climate targets and align their businesses to the energy transition. While we have seen improvements, all fossil fuel companies fall short of aligning with the Paris Agreement. We have therefore made the decision to exclude these companies from our portfolio.

ENGAGEMENT
continued

Public equity: Engaging Bayer on climate policy alignment

The Commissioners engaged with Bayer, the German pharmaceuticals and agribusiness company, throughout 2021, with the aim of persuading the company to review and make public the climate readiness of the industry associations of which it was a member. In October 2021, Bayer published its review, which found that while 32% of the industry association positions examined were fully aligned, over half had no public positions on climate-related issues that were priorities for Bayer. We welcomed Bayer's commitment to transparency and to addressing misaligned and partially misaligned industry associations, and noted that we were looking forward to seeing tangible results in this regard. We continue to engage with Bayer.

Net Zero Asset Owner Alliance – Policy and Monitoring, Reporting and Verification (MRV) workstreams

The Commissioners co-leads the NZAOA policy and MRV workstreams. The policy workstream has played a significant role in engaging with policy makers in the US, UK, Japan, China and the European Commission. This workstream also feeds into the GFANZ, and the UN High-Level Champions Finance workstream. The MRV workstream is responsible for continuously developing how members can set targets for their portfolios and report against them. Through the NZAOA we have contributed to several papers, including on carbon pricing and strategic policy, as well as supporting a call to action for private market investment managers to commit to net zero.

Investor Policy Dialogue on Deforestation (IPDD)

In the summer of 2020, the Commissioners co-founded IPDD, an investor-led initiative that engages governments in policy dialogue on halting deforestation. IPDD's membership now consists of 67 institutional investors from 19 countries representing assets under management of over $10tn. The aim is to ensure the long-term financial sustainability of investments by promoting sustainable land use and forest management, and respect for human rights. The Commissioners is on the IPDD Management Committee, co-founded and co-chair the Indonesian working group, and support the Brazil workstream. As co-chair of IPDD's Indonesian workstream, our Deputy Head of Responsible Investment met with key stakeholders in Jakarta in October 2022 to discuss how to advance sustainable finance in Indonesia and how institutional investors can support the country's efforts to reduce deforestation. In December 2022 at COP 15, IPDD launched its first progress report, showcasing the role which investors can play in supporting policy makers in protecting tropical forests.

COLLABORATIONS AND INITIATIVES

Collaborations and industry initiatives enable us to amplify our voice as we engage on issues that are important to us. This can include influencing change, sharing knowledge and best practice. A list of some organisations we contribute to is below:

Better Buildings Partnership, CDP, Climate Action 100+ (CA100+), ESG Data Convergence Initiative, Fenland SOIL, Finance Sector Action on Deforestation (FSDA), Financing a Just Transition Alliance, Global Investor Commission on Mining 2030, IIGCC Net Zero Engagement Initiative, Institutional Investors Group on Climate Change (IIGCC), Investor Policy Dialogue on Deforestation, Nature Action 100, Nature Friendly Farming Network, Powering Past Coal Alliance, Principles for Responsible Investment, Science-based Targets initiative (SBTi), Transition Pathway Initiative, UN-convened Net Zero Asset Owner Alliance (NZAOA), UK SIF Green Taxonomy Working Group, Wildfowl & Wetlands Trust (WWT).

INVESTING IN SOLUTIONS

Investing in solutions covers a range of activities. It includes investing directly in sustainable forestry, funds investing in climate infrastructure or green buildings, or investing in shares of large listed companies that help decarbonise the economy through funds that have a general mandate that fits within our responsible investment approach. Our investments in assets that address climate change and in publicly listed companies focused on climate solutions add up to more than £800mn. In addition to this £800mn, we also invest in and enable initiatives in other parts of the portfolio. For example, we work with and enable our farming tenants to provide climate solutions, including consent for renewable energy, supporting improvements to slurry infrastructure or updating lease terms to ensure climate resilience. We have also invested with external asset managers who are investing in line with the energy transition, although those investments are not categorised as a solution, and in funds which have a broader focus on environmental and social impact combined with the aim of setting science-based targets for the companies in the fund. The following examples form part of our holistic approach to investing in climate solutions.

>£800mn

invested in climate and environmental solutions, corresponding to +7% of the fund[11, 12]

KEY PRIORITIES

- Improve our ability to capture investments in climate solutions across the portfolio
- Continue to work with our Real Assets portfolio to adopt climate solutions
- Continue to invest in climate solutions across the portfolio

Infrastructure: Pioneer Infrastructure Partners fund

In 2022 we committed €30mn to Pioneer Point Partners' maiden institutional fund ("the fund"), which is focused on sustainable infrastructure investments across western Europe. The fund, which closed at €575mn, will invest for 10 years and focus on infrastructure investments that support the energy transition and the circular economy. The fund has already acquired two businesses including a diversified renewables platform in Spain and is targeting a diverse portfolio of up to 10 investments. Climate-related infrastructure is one of the fastest growing infrastructure sectors and has proven a successful hedge against external crises, due to its low-cost profile, long-term contracts and high consumer demand.

Farmland: Creating a nature reserve on the edge of Hereford

An example from our Farmland portfolio is Bartonsham Meadows. In spring 2023, the Commissioners agreed a tenancy agreement to promote nature alongside sustainable agriculture on Hereford's Bartonsham Meadows, located in the heart of the city. This agreement will help restore the 100-acre site on the banks of the river Wye to a more natural state and create a wildlife haven for nature and people alike. Plans are in place to plant grass and wildflowers, creating floodplain meadows, restore ancient hedgerows and some orchard trees, reintroduce low intensive cattle grazing, and allow for seasonal flooding. Once established, the new floodplain meadows will help protect the city of Hereford from flooding, improve soil and water quality, and create rich new habitats for plants and wildlife.

INVESTING IN SOLUTIONS
continued

Timberland: Sustainable forestry

Sustainable forestry makes up about 5% of the value of the Commissioners' portfolio. All of our forests are managed according to local best management practices (e.g. UK Forestry Standard for forests in the UK) and have been independently certified as adhering to strict environmental, social, and economic standards. This ensures, for instance, robust biodiversity conservation practices, maintenance of good soil quality, protection of rivers and streams, and sustainable labour practices. Similarly, all harvested timber is certified as being sustainably produced (e.g. Forest Stewardship Council (FSC)).

While the management and harvesting practices in certified forests are inherently sustainable, effectively communicating this fact can be challenging. Instinctively, felling trees may not feel appropriate considering the length of time it takes for an individual tree to grow or potentially incorrectly associating sustainable forestry with global deforestation. When considered on a landscape scale, however, harvesting and replanting create a continuous cycle of renewable resource production and an alternative to non-renewable, carbon intensive materials. Sustainable forest management ensures this is undertaken considerately, prevents deforestation, reduces atmospheric carbon, and protects biodiversity.

We will continue to focus on the sustainable management of our forests and land, building on the positive environmental contribution the forestry portfolio already makes.
Key components will be continued sustainable timber production, advancing renewable energy developments, carbon sequestration and planting new woodlands.

Public Equity: Electron

One of our listed equities asset managers is Electron Capital ('Electron'). Electron invests in a small number of large companies including global clean energy, infrastructure, and transitioning utilities. Electron's investment strategy is based on actively investing in the transition to decarbonise the economy. It is a good example of a fund which cannot be judged by its emissions. The Carbon Footprint of the fund is two times the global equity benchmark, because electric utilities is a high carbon-emitting sector. However, the focus on utilities that are transitioning to align with a low carbon economy makes it one of our key investments in the energy transition.

Private Equity: Summa Equity commits to SBTi

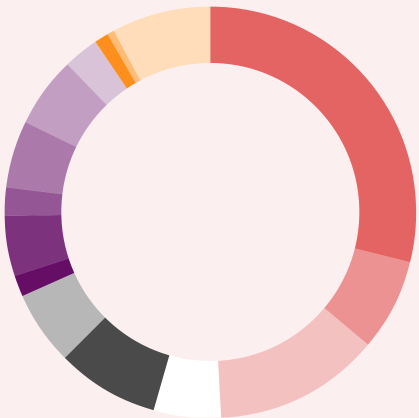
Summa Equity is a private equity investor focused on Resource Efficiency, Changing Demographics and Tech-Enabled Transformation. Summa is committed to tracking and reporting Impact KPIs and targets for all of their portfolio companies, as well as setting Science Based Targets. Two of their portfolio companies have received official validation of their targets, and several other portfolio companies have initiated the process and are expected to have validated targets during 2023-2024.

THE CLIMATE IMPACT OF OUR INVESTMENT PORTFOLIO

THE CHURCH COMMISSIONERS' INVESTMENT PORTFOLIO

The Commissioners invests across different types of investments. For example, we invest in public companies listed on stock exchanges, privately owned start-ups, or investments directly in real estate, infrastructure and forestry. Figure 1 shows the split between the different types of investments in the Commissioners' portfolio as of 31 December 2022, based on the value of the investments.

Figure 1: The Commissioners' portfolio per 31 December 2022, based on the value of the assets under management



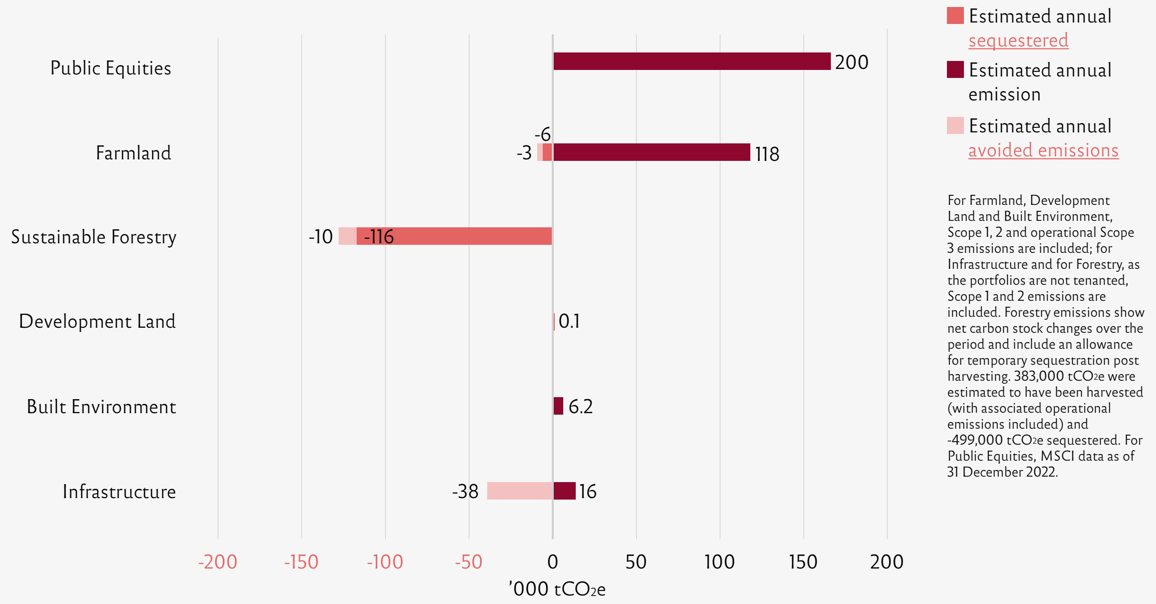
Public Equities	28.9%
Defensive Equities	7.4%
Absolute Return	13.0%
Credit Strategies	5.2%
Private Equity	8.2%
Venture Capital	5.8%
Infrastructure	1.5%
Timberland	4.9%
Commercial	2.3%
Residential	5.1%
Rural	5.6%
Strategic Land	2.8%
Indirect Property	1.1%
Portfolio Hedges	0.6%
Cash, and Cash-Like Assets	7.6%

To meet our net zero target and interim targets, and to prioritise our actions to influence change, as laid out in 'Our approach going forward', we need to understand the current and future climate impact of our portfolio. Different types of investments lend themselves to different levels of analysis. When assessing the climate impact of the Commissioners' investment portfolio, a key piece of information we review is the GHG emissions of companies and holdings in the portfolio, measured as tonnes CO_2e per annum.

We currently collect Scope 1 and 2 emissions, as well as operational Scope 3 for Real Assets.[13] However, this is not the whole picture. Scope 3 emissions (beyond operational Scope 3 emissions for the Real Assets portfolio), which measure the value chain emissions of a company or asset, often far outweigh operational emissions. In addition, we need information on the direction of travel of the investments and whether they provide climate solutions. While the information we have across the portfolio is not yet complete, it is improving over time. This section will show the emissions that we currently collect and samples of data beyond emissions, either on a qualitative or quantitative basis.

THE CLIMATE IMPACT OF OUR INVESTMENT PORTFOLIO
continued

Figure 2: Our estimated carbon emissions profile



DATA COVERAGE

We collect Scope 1 and 2 (and, for Real Assets, operational Scope 3) emissions data for around 60% of the total portfolio currently. Not all the emissions reporting is comparable or meaningful enough for us to report on it, so the reported emissions in Figure 2 cover c. 50% of our total portfolio.

We are pleased with the coverage we have of our portfolio emissions, particularly given the genuinely diversified portfolio we have. While we can collect emissions for most of our investments, there are inevitably gaps and the data coverage is not perfect – the information we receive is difficult to compare and/or aggregate and, for some types of investments, methodologies to aggregate information are still nascent. In certain asset classes, for example seed and early stage private companies, the businesses are often just an idea, so historical emissions data would be meaningless. Some of these concepts and ideas we hope will provide climate solutions.

However, data coverage is improving all the time. For example, 60% of our funds in private equity currently report on carbon emissions either partially or fully, or they have signed up to the ESG Data Convergence Initiative committing to be able to report on ESG metrics, including GHG emissions.

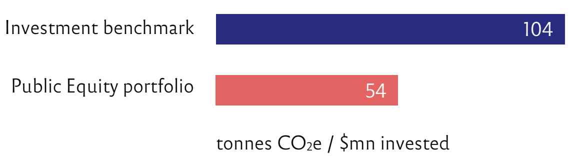
In addition to climate information, we also consider how our partners invest in climate solutions, and we continue to develop our understanding of the available information and engage with our partners to collect more climate information.

PUBLIC EQUITIES

The public equity portfolio makes up the largest part of the investment portfolio and also has the highest absolute emissions of the asset classes with available data (emissions data covers 90% of the public equity portfolio). Figure 3 shows the carbon footprint (tCO_2e/$M invested) of the public equity portfolio. In 2021, the Commissioners set a target to reduce the carbon footprint of the public equity and real estate portfolios 25% by 2025 based on a 2019 baseline. For public equities alone, the current carbon footprint is 71% lower than the baseline,[14] significantly exceeding the target to reduce emissions in our public equity portfolio.

While we believe the reduction in emissions for the public equity portfolio is very positive, we need to understand why the emissions are lower. Sector and geographic location of a company are the two main drivers of whether a company's emissions are high. High-emitting sectors include oil and gas, electric utilities, mining metals and transportation – these sectors have very different roles to play in the energy transition. While we consider the energy transition, electric utilities, mined metals and transportation have significant roles to play in the portfolio, we do not see oil and gas playing a major part in the energy system in the long term. Electron (case study on page 14) is a good example to show that high portfolio emissions do not necessarily equate to a lack of awareness of the energy transition.

Figure 3: Carbon footprint of the public equity portfolio



Source: MSCI; data as of 31 December 2022; data coverage above 90% for each fund

A large part of the emissions reduction of the public equity portfolio has come from excluding investments in oil and gas companies, and other high carbon emitting companies that failed the hurdles from the 2018 Synod Motion.

In addition to emissions, we want to understand whether the companies in our portfolio are moving towards alignment with our net zero target. The world is not currently net zero, so we would not expect our portfolio to be. However, to get to net zero, we need to understand the portion of the portfolio which is currently planning for the energy transition. To start this analysis, we assess whether companies have set science-based targets approved by the Science-based Targets Initiative (SBTi). We continue to seek ways to improve our understanding of the direction of travel for companies and how to see if companies are genuinely on the path towards net zero. 29% of companies in the public equity portfolio have SBTi approved decarbonisation targets, which we see as a good start. Particularly, as we have a lot of smaller companies and companies in emerging markets, which are not as likely to have set science-based targets yet.

Photo by Lisa Stevens

INFRASTRUCTURE

More than 75% of our commitments to infrastructure funds are to funds invested either purely in climate solutions or with a significant majority of their investments in climate solutions. While Scope 1 and 2 emissions are important factors, we also want to understand the avoided emissions, for example, emissions that do not occur because they have been displaced by renewable energy. Some of our managers have started reporting this information. The emissions in Figure 2 (page 16) represent emissions data from 63% of our infrastructure portfolio. One of our infrastructure investments, an active anaerobic digestor that captures methane to use as biofuel, enables more avoided carbon by capturing methane and replacing fossil fuels than the rest of the infrastructure portfolio emits in total. We continue to work with our managers to understand both the emissions, the avoided emissions and direction of travel of the investments.

REAL ASSETS (DIRECTLY MANAGED)

In 2022, we completed a comprehensive, two-year baselining project to understand our estimated annual emissions profile from our Real Assets portfolio. This includes emissions from activity carried out by our tenants, or Scope 3 operational emissions.

This work is still in the early stages, and the exercise has helped us pinpoint crucial areas that require attention, both within our direct control and across our key spheres of influence.

The emissions profile of our Real Assets portfolio is dominated by farmland and sustainable forestry investments. The baselining also identified avoided emissions from renewable energy sources amounting to 14,000 tCO_2e. These are not included within the estimates. Annual portfolio emissions do not include emissions, sequestration or avoided emissions relating to activity post our ownership, such as future housing development or future avoided emissions when renewable energy displaces fossil fuels.

Farmland
Our farmland was estimated to have the most significant level of emissions (112,000 tCO_2e) in the Real Assets portfolio in absolute terms. Within this portfolio, dairy farming was the largest relative contributor, largely due to methane emissions. This finding is similar to other landowners. Other farmland emissions related to the expected use of nitrogen application and fertilisers, as well as fuel for farming machinery. The estimation does not include any assumption of specific sustainable farming practices and, we believe, is therefore a conservative estimation. In addition, it is important to note that the emissions were provided by third parties and not direct.

14,000 tCO_2e
avoided through renewable energy generation

Timberland
This portfolio was estimated to be absorbing, net of emissions, approximately 116,000 tCO_2e. This includes the benefit of carbon stored in harvested wood products that was estimated to be a discounted 89,000 tCO_2e (wood, especially in construction, continues to store carbon post harvesting). The level of net sequestration is expected to increase as planted trees absorb more carbon.

Development Land
The land that we own for future development, as predominantly dormant land, has only a small level of current activity on the site (100 tCO_2e). Therefore, the estimated annual emissions were low. We are developing analysis to calculate emissions that relate to future development post our ownership.

REAL ASSETS (DIRECTLY MANAGED)
continued

Built Environment
When compared to farmland, built environment assets – commercial and residential property – make up a much smaller level of annual emissions, but are still an important area of focus. Over the course of 2023, we will collect data across a range of key metrics. This will include, where possible, direct energy performance to help monitor emission reductions and other key indicators that help signal change such as Energy Performance Certificates (EPC) data, avoided emissions and percentage of leases with environmental clauses. From this, we will then look to set additional targets relating to energy and social impact.

Beyond emissions in Real Assets
One of the biggest challenges faced by all stakeholders forging their path to a net zero world is that a just transition is needed to protect and support nature recovery, alongside people's social mobility and wellbeing.

While there will inevitably be some trade-offs and compromises among competing objectives, our overall philosophy is that emissions, nature, social mobility and financial value are mutually reinforcing and cannot be looked at in isolation.

For example, regenerative farming can simultaneously reduce emissions, increase carbon capture and promote soil health, biodiversity and nature recovery. As part of any new letting, we carry out a pre-letting environmental assessment to identify the best ways to increase biodiversity and create the necessary obligations to ensure these are taken forward.

Our sustainable timber production takes place alongside important work to promote biodiversity, including restoring plantations on ancient woodland sites to native woodland and participating in scientific trials to improve forest resilience, tree species diversity and to reduce the use of pesticides.

At least 20% (by area) of our UK forests are managed with biodiversity as the primary objective. This includes native tree species, unplanted areas of natural vegetation, and mature trees retained to benefit biodiversity. As well as habitat protection and carbon storage, forestry also benefits air quality regulation, employment, flood prevention and recreation.

To learn more, see our new report '<u>Our approach to sustainability for Real Assets</u>'.

CLOSING REMARKS

This report has laid out our plan to align with the goals of the Paris Agreement and use our available levers to influence the transition to a net zero world as well as a net zero investment portfolio. In addition, we have provided an overview of the current climate impact of the portfolio. These actions will help ensure the investment portfolio is aligned with the Fifth Mark of Mission: to strive to safeguard the integrity of creation, and sustain and renew the life of the earth. We hope the examples in this report explain how we are already doing this across the portfolio and how we will bring the work forward on our journey towards net zero.

OUR KEY PRIORITIES OVER THE COMING YEARS

- By the end of 2023, exclude companies whose primary business function is derived from exploration, production and refining oil or gas, unless it is on a genuine pathway to transition in alignment with a 1.5°C scenario
- Continue to refine our RI integration processes related to the selection and monitoring of external managers
- Update our interim targets by 2025
- Collect more climate information on the portfolio, in terms of quantity and quality
- Continue to develop and enhance our engagement efforts with priority stakeholders for climate engagement:
  - Tenants across the Real Assets portfolio
  - Key engagements with large public companies
  - External asset managers
  - Policymakers
  - Key industry initiatives that drive climate action
- Improve our ability to capture investments in climate solutions across the portfolio
- Continue to work with our Real Assets portfolio to adopt climate solutions
- Continue to invest in climate solutions across the portfolio

GLOSSARY

1.5°C pathway or scenario: The main goal of the Paris Agreement is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." A 1.5°C pathway is a forecast of what needs to happen in the world to limit the temperature increase to 1.5°C, e.g. how much clean energy production needs to increase.

Avoided emissions: Avoided emissions are emission reductions that occur outside of a product's life cycle or value chain, but as a result of the use of that product (GHG Protocol | Do We Need a Standard to Calculate "Avoided Emissions"?), for example renewable energy displacing fossil fuels.

CO_2 equivalent emissions (CO_2e): A metric measure used to compare emissions across different greenhouse gasses. Methane, for example, causes more warming in the short term but disappears from the atmosphere faster than carbon emissions. Greenhouse gases are converted to carbon emission equivalents.

Sequestered emissions: Carbon sequestration is the process of storing carbon, so sequestered emissions are emissions that are being stored long-term. For example, trees sequester carbon.

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

Scope 1, 2 and 3 emissions: Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Asset manager: An external organisation investing the funds of the Commissioners on our behalf.

Real assets: Real assets are physical assets that have an intrinsic worth due to their substance and properties, for example real estate, land or infrastructure.

Anglican Communion: The Anglican Communion is a family of 42 autonomous and independent-yet-interdependent national, pan-national and regional churches in communion with the see of Canterbury Anglican Communion.

Ethical Investment Advisory Group (EIAG): The Ethical Investment Advisory Group supports the Commissioners, the Church of England Pensions Board and the CBF Church of England Funds (managed by CCLA). They provide timely and practical advice to the three National Investing Bodies (NIBs) to enable them to invest in a way that is distinctly Christian and Anglican.

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

1. To proclaim the Good News of the Kingdom
2. To teach, baptise and nurture new believers
3. To respond to human need by loving service
4. To seek to transform unjust structures of society, to challenge violence of every kind and to pursue peace and reconciliation
5. To strive to safeguard the integrity of creation and sustain and renew the life of the earth

NIBs: National Investing Bodies, consisting of three entities:

- The Commissioners manages the Church of England's £10bn endowment fund. The money it makes from those investments contributes to the cost of mission projects, dioceses in low-income areas, bishops, cathedrals, and pensions. The Commissioners also provides administrative support for the Church.
- The CBF Funds manage almost £3bn on behalf of approximately 14,000 Church of England organisations and play an important part in supporting and resourcing the work of the Church. The Funds are managed by CCLA, which manages £13.6bn on behalf of churches, charities and Local Authorities.
- The Church of England Pensions Board provides retirement services to those who work or minister for the Church of England. It is a trustee of the funded pension schemes and serves over 42,000 pension scheme members across 700 employers, and responsibly stewards more than £3.2bn of funds under its care. The Board also operates clergy retirement housing on behalf of the Church.

END NOTES

1 Glasgow Financial Alliance for Net Zero | Financial Institution Net-zero Transition Plans

2 IPCC | IPCC Special Report on 1.5°C Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments

3 The Church of England | Policies and reviews (NIBs Climate Change Policy)

4 Church Commissioners | Updated Responsible Investment Policy November 2022

5 Impact Frontiers | Investor Contribution Strategies

6 The Church of England | The National Investing Bodies Approach to Climate Change, A report for General Synod, June 2023

7 The reduction covers public equities and real estate combined. We have changed the methodology for collecting information for real estate, leading to us collecting more information, which shows as higher emissions. However, the reduction in public equity emissions outweighs this increase

8 Challenges to report include comparability and different formats of information, which make it difficult to aggregate

9 The Church of England | Policies and reviews (NIBs Climate Change Policy)

10 The Church of England | The National Investing Bodies Approach to Climate Change, A report for General Synod, June 2023

11 Net asset value per 31 December 2022; includes dedicated climate solutions funds in infrastructure and real estate and climate solutions in underlying public equities

12 MSCI and Church Commissioners data for portfolio | environmental and climate solutions only

13 Greenhouse Gas Protocol | Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions

14 The emissions reduction for public equity and real estate combined also shows a total reduction of 71%

CHURCH COMMISSIONERS FOR ENGLAND