

GENERAL SYNOD

OVERSIGHT OF CBF CHURCH OF ENGLAND FUNDS

1. This note sets out potential future changes to the oversight of the CBF Church of England funds managed by CCLA which may be made if the funds are transferred to be managed as Charity Authorised Investment Funds (CAIFs). It is intended to be read in conjunction with the draft enabling legislation GS 2347, the explanatory memorandum GS 2347X and the policy paper GS 2347P.

Background

2. Many dioceses, cathedral chapters and parochial church councils invest in the CBF Church of England funds managed by CCLA Investment Management (referred to subsequently as CCLA), which manages around £3bn of Church of England assets and around £11bn on behalf of other investors.
3. Since 2007¹ the six CBF Church of England Funds managed by CCLA have been overseen by CBF Funds Trustee Ltd (CBFFT). CBFFT was established by Measure and has the standard trustee responsibilities for the six CBF Church of England Investment Funds managed by CCLA and for stewardship of the shareholding in CCLA that is held in the CBF Church of England Investment Fund (CBFIF). This shareholding, which originates from the launch of the CBFIF by the Central Board of Finance in 1958, represents around 53% of CCLA shares, the proportion of the total assets under management in the CBF Church of England funds when the current governance arrangements were put in place in 2007. Other CCLA shareholders are the Charities Official Investment Fund (COIF), the Local Authorities Mutual Investment Trust (LAMIT) and some CCLA employees.
4. CCLA, together with the Church Commissioners and the Church of England Pensions Board, are the National Investment Bodies of the Church of England (NIBs) which collaborate on environmental, social and governance (ESG) issues through the Ethical Investment Advisory Group (EIAG). This, together with the ethos of the firm and the appointment of the trustees on CBFFT by the Church, helps to ensure that the CBF Church of England funds are managed in alignment with the Church of England's values and beliefs.
5. The Church of England ethos of CCLA and the funds which it manages are protected further by the Memorandum and Articles of CBFFT under which the provisions of greatest concern to the Church – such as the duty “to have regard to the recommendations of the Ethical Investment Advisory Group” – are protected by a 'golden vote' requiring the Archbishops' Council's agreement if the CBFFT ever wanted to alter them.

¹ Prior to this, these functions were undertaken by the Central Board of Finance which in effect was merged into the Archbishops' Council on the establishment of the latter, although it was not formally wound up until 2009.

6. There is also a shareholder agreement between CBFFT (as a representative of the Church of England) and representatives of the shareholders for charities and local authorities which helps embed collaboration between the Church, charity and local authorities to the benefit of all CCLA clients.

Likely changes as a result of changing to the CAIF structure

7. In preparation for a future change to a CAIF structure, if agreed, the governance arrangements for the funds managed by CCLA, including the ways in which the Church of England ethos would continue to be protected, would need to be reviewed. Some work on this has taken place with representatives of CCLA, CBFFT and the Archbishops' Council. The likely changes are outlined below.
8. **The articles of association of CCLA Investment Management Limited would be reviewed** to consider the shareholder threshold for a veto on key changes. A Church of England body would need to ensure it maintained a 'core holding' in CCLA of at least this level. The key changes are expected to relate to alignment of ethical investment policy with the EIAG, the sale of CCLA shares to any third party, the appointment of the CCLA chair and chief executive, any material change to the strategy and operation of CCLA's business and any further changes to its articles of association.
9. As part of the transfer of the CBF Church of England funds to the CAIF structure, CBFFT would expect to use funds available to it to facilitate the purchase (at market value) of some of the CCLA shares currently held in the CBFIF. This would form the basis of a **core 'Church of England' holding in CCLA, sufficient for the veto on key changes described above to be used should the need ever arise**. The Archbishops' Council would consider whether to provide additional funding to build up a larger holding.
10. **A new shareholder agreement should be developed**. This would need to be carried out in consultation with the shareholders for charities (Charities Official Investment Fund - COIF) and local authorities (Local Authorities Mutual Investment Trust - LAMIT).
11. On the conversion of the CBF Church of England Funds to the CAIF structure, CBFFT would cease to be trustee of the funds as the Financial Conduct Authority (FCA) requires this function to be undertaken by an FCA regulated entity. One of the major banks is likely to be appointed to this role. The CBFFT's remaining roles would be the oversight role (which it currently discharges through quarterly trustee meetings, biannual audit committee meetings, quarterly informal meetings to track progress and share information), and regular liaison with the CCLA executive and other shareholders alongside ad hoc work on particular issues.
12. This reduced future role for CBFFT would provide an opportunity to **review the governance structure for the oversight of the CBF Church of England funds**. It is likely to be concluded that that the remaining functions of CBFFT would be most efficiently discharged through a 'CCLA investment sub-committee' of the Archbishops' Council's Finance Committee or its successor

body rather than requiring a distinct legal entity. To some extent this would be reverting to the pre-2007 arrangements (see footnote 1).

David White, Deputy Director of Finance, National Church Institutions
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Glossary of acronyms

CAIF	Charity Authorised Investment Fund	An investment fund vehicle designed specifically for the charity sector.
CBF	Central Board of Finance	Prior to the establishment of the Archbishops' Council, this was the financial executive of the General Synod. Its responsibilities in respect of the Church of England Investment funds were passed to CBFFT in 2007.
CBFFT	Central Board of Finance Funds Trustee Limited	The trustee body with responsibility for overseeing the six CBF Church of England Investment Funds
CBFIF	Central Board of Finance Church of England Investment Fund	A diversified investment fund managed by CCLA.
CCLA	Church Charity and Local Authority Investment Management Limited	Investment management firm which manages investments for charities, religious organisations and the public sector. One of the three Church of England National Investment Bodies (NIBs) along with the Church Commissioners and Church of England Pensions Board
COIF	Charities Official Investment Fund	A common investment funds for charities managed by CCLA
FCA	Financial Conduct Authority	Regulator of financial services firms and financial markets in the UK
LAMIT	The Local Authorities Mutual Investment Trust	Trustee of the Local Authorities' Property Fund which owns a proportion of the share capital of CCLA Investment Management Limited