

## **Statement of Investment Principles**

### **Church Administrators Pension Fund (CAPF) 2024**

#### **I. Introduction**

This Statement of Investment Principles (“SIP,” or “Statement”) sets out how the assets of the Church Administrators Pension Fund (referred to as the “CAPF” or the “Scheme” in the rest of this document) are invested. It has been prepared by the Church of England Pensions Board (referred to as the “Board” or “Trustee” in the rest of this document), which is the corporate Trustee of the Scheme, with advice from its Investment Consultant.

The Church Administrators Pension Fund is for staff employed by National Church Institutions (NCIs) and episcopal staff.

It has two sections:

- Defined Benefit section (CAPF DB) - for those who joined before 1 July 2006
- Defined Contribution section (CAPF DC) - for those who joined on or after 1 July 2006

This Statement has been discussed with the sponsors of the Scheme.

The Trustee will review this Statement every year and without delay after any significant change in investment policy or, if required, following a formal investment strategy review.

Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

The Trustee receives written advice from its Investment Consultant on any investments prior to them being implemented. This Statement complies with the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended).

#### **2. Objectives**

##### ***For the Defined Benefit section:***

The Trustee is responsible for the stewardship of the Scheme’s assets. It has three main objectives in relation to the defined benefit section (the “DB Section”) of the Scheme, 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 agreed a long-term objective for the DB Section of the Scheme with the sponsors to have sufficient assets to secure an eventual buy-out. In the meantime, the Trustee's objective is to maintain full funding on a low risk basis (gilts +0.4% pa), which in turn means there's a low risk the Scheme's sponsors will need to make additional contributions. The funding gap to buy-out is expected to close over time through actual investment returns exceeding their prudent estimate in the funding basis, and a natural maturing of the Scheme.

***For the Defined Contribution section:***

The Trustee's objectives for the defined contribution section ("DC Section") of the Scheme are:

- (1) To provide a range of investment funds that cater for various risk appetites and objectives which enable members to save effectively for their retirement needs; and
- (2) To provide a prudent default arrangement for those that do not wish to make their own investment choices under the Scheme.

The Trustee periodically reviews the suitability of the options provided and from time to time will change or introduce additional investment funds as appropriate.

**3. Defined Contribution default option (Defined Contribution section only)**

The DC Section's default option is a target date fund strategy called the "Drawdown Journey." Legal & General have been appointed as investment platform provider. The default option is well diversified in terms of the assets that the strategy is invested in. The asset classes, and the managers of them, are listed on the Board's website.<sup>1</sup> The Trustee takes advice to ensure that the asset classes invested in by the DC Section are appropriate.

Taking into account the demographics of the DC Section's membership and the Trustee's views of how the membership will take their benefits at retirement, the Trustee believes that the current default investment option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the DC Section's demographic or investment policy, if sooner.

The aims and objectives of the default option are below. How the Trustee seeks to achieve these objectives is shown in *italic*:

- (1) To generate returns in excess of inflation during the earlier part of the strategy, whilst managing downside risk.

*For members further away from target retirement, assets are invested in the "Growth" stage which has a higher allocation to equities and other return seeking assets than other parts of the strategy. There is a gradual risk reduction as members get closer to retirement, with the "Approaching Retirement" phase taking full effect as members are 10 years before target retirement.*

- (2) To provide a strategy that reduces investment risk relative to the benefits members

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<sup>1</sup> <https://www.churchofengland.org/about/pensions/capf-defined-contribution-scheme>

are likely to take at retirement, as members approach retirement.

*As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce investment risk relative to the expected retirement benefit choice as the member approaches retirement is appropriate. At 10 years before target retirement, assets are gradually de-risked to reduce the exposure to return seeking assets in favour of more capital preservation and lower risk investments. This de-risking continues into retirement.*

- (3) To provide exposure, at retirement, to assets that are considered suitable for those looking to enter into an income drawdown arrangement at retirement.

*The allocation at retirement predominantly consists of investment grade corporate bonds and inflation-linked UK government bonds to reduce risk. It also maintains a smaller allocation to equity and return seeking investments, with the aim of combining stability with an opportunity for the pot to continue to grow.*

The Trustee's policies in relation to the default option are detailed below:

- i. The default option manages investment risks through a diversified strategic asset allocation consisting of different types of traditional assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. More detail on how the Trustee measures and manages risk for the Scheme as a whole, which is consistent with the default, is provided in the risk section.
- ii. In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns.
- iii. The Trustee considers both the kinds of investments to be held and the balance of investments in the default option. This includes the characteristics of particular asset classes and the balance between the use of active and passive investments where appropriate.
- iv. Assets in the default option are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are investment vehicles which are managed by an investment manager. The Trustee is comfortable with a target date fund strategy which is pre-built by Legal & General Investment Managers ("LGIM").
- v. Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity, and profitability of a member's portfolio as a whole. Assets are also invested mainly on regulated markets (and those that are not, are kept to prudent levels).
- vi. Members do not have to take their retirement benefits in line with those targeted by the default option: the target benefits are merely used to determine the investment strategy held pre-retirement and at the point of retirement.
- vii. Assets in the default option are invested funds where the underlying fund is a long-term insurance contract. Members do not hold any assets directly. The insurance contracts have assets underlying them which generate the returns that are passed on to members who are invested in the funds.
- viii. The Trustee's policies in relation to financially material considerations, non-financial matters, exercise of rights/engagement and arrangements with asset managers in

relation to the default are consistent with the Trustee's policies in these areas for the scheme. These policies are in the sections titled "Ethical and Responsible Investment" and "Investment management".

- ix. The performance of the default option is reviewed on at least an annual basis by the Trustee.

The Trustee keeps the default option under regular review, at least every three years and without delay after any significant change in investment policy or the demographic profile of members, to ensure they remain appropriate for meeting the Scheme's objectives and controlling risks.

In addition to the Trustee's objectives and beliefs, the Trustee believes the combination of aims and objectives, and policies for the default above combine sufficiently rigorous governance, oversight, expertise, and action to meet the intention of ensuring assets are invested in the best interests of relevant members and beneficiaries.

#### **4. Investment Policy**

##### ***For both the Defined Benefit and Defined Contribution sections***

The Trustee is responsible for how the Scheme's assets are invested. It takes advice from the Investment Consultant and the Scheme Actuary where appropriate, and it is supported by an in-house investment team. The Trustee has established an Investment Committee, which has relevant professional investment experience through a mix of members of the Board and co-opted members.

Ethical and responsible investment considerations are central to the Trustee's work. They reflect the Christian identity and the values of the Board and its beneficiaries, and they inform its aim of achieving a long-term sustainable return on the Scheme's investments.

Day to day investment decisions are delegated to the external investment managers. They are appropriately qualified and their activities are defined by legally binding agreements.

##### ***For the Defined Benefit section***

The Board determines investment strategy for the Scheme, which is the split in the Scheme's assets between assets invested for growth (return seeking assets) and investments that seek to match the liabilities.

The Investment Committee selects the asset classes for investment, appoints managers for them, monitors the managers' performance and removes them when necessary. It also directs the Scheme's cash flows, between asset classes and investment mandates.

The Trustee monitors the covenant of the Scheme's sponsors in order to assess their ability to support the Scheme. The Trustee believes the Scheme's sponsors are willing and able to underwrite its liabilities.

##### ***For the Defined Contribution section***

The Board determines the investment strategy for the Scheme, which is the design of the default option and the range of self-select options.

The Pensions Committee makes recommendations to the Trustee Board in relation to design and implementation of the Defined Contribution section, including scheme design, manager selection and asset allocation. The Trustee receives specific DC advice from its Investment Consultant.

#### *Policies in relation to illiquid assets*

The Trustee considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Trustee recognises investment in illiquid assets comes with a higher governance burden and charging structure. The Scheme's default lifestyle arrangement includes no direct allocation to illiquid investments or to investments via a collective investment scheme; if the manager proposed changing this, the Trustee would give it due consideration.

The Trustee understands the potential for higher returns and benefits of diversification relative to more traditional asset classes (such as bonds or equities) that illiquid assets can offer. While these potential benefits are recognised by the Trustee, they are also aware of the risks of illiquid assets to members and the higher charges. Given the potential for valuations of illiquid assets to not reflect their accurate value at a given time, as well as concerns over liquidity management and platform compatibility, and the higher governance burden, the Trustee considers including illiquid assets in the self-select fund range not currently viable. The Trustee remains comfortable with the funds used in the default, and annually assess whether the funds used provide value for members.

In selecting investments for the default lifestyle arrangement, the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocation mixes. When making investment decisions the Trustee carefully considers whether the investment is expected to provide value for members, taking account of the return potential and associated risks. It is the Trustee's policy to review the allocation of the default lifestyle arrangement on at least a triennial basis. Such reviews will include whether the incorporation of illiquid asset investments is appropriate.

## **5. Investment Beliefs**

The Trustee has developed a set of investment beliefs, which underpin how the investments are made. The beliefs are set out in Appendix I to this statement. Environmental, Social and Governance ("ESG") considerations, including climate change and other systemic risks and opportunities are central to the Trustee's investment beliefs.

## **6. Investment Management**

### ***For the Defined Benefit section***

The Board operates a common investment fund, The Church of England Investment Fund for Pensions, (or "CEIFP"), comprising a Public Equity Pool, Diversified Growth Pool, Diversified Income Pool, Listed Credit Pool and Liquidity Pool (together "the pools"). The common investment fund allows the Board's pension schemes, including the CAPF, to pool their assets for greater efficiency and diversification than they would be able to achieve if investing on their own. The investment powers of the common investment fund are set out in the Schedule of

Regulations of the CEIFP's Trust Deed and are in accordance with the investment powers of the Board as set out in the Church of England Pensions Measure 2018 (as amended).<sup>2</sup>

The CEIFP accounts for all the return seeking investments of the CAPF and some of its liability matching assets. The Scheme may from time to time have assets that are invested outside the common investment fund. In particular, so called Liability Driven Investment ("LDI") assets are held to back pensions in payment and to hedge against inflation and changes in interest rates (with physical Gilts and Index-linked Gilts).

The Scheme's investment managers are listed in the Scheme's Annual Report which also carries information on investment performance, asset allocation and the main investment decisions taken during the year. The Scheme's Annual Report is published on the Church of England website.

The in-house investment team regularly meets with each of the Scheme's investment managers to discuss performance and other related matters (including climate change and other ESG topics) and reports its findings to the Trustee. As part of this process, the investment team will challenge decisions that appear inconsistent with the Scheme's stated objectives and/or policies. Portfolio turnover costs and manager fees are monitored by the investment team, in absolute terms and relative to what might be reasonably expected given the underlying asset class and investment style of each investment manager and reported to the Trustee periodically.

### ***For the Defined Contribution section***

The funds available to members are managed by the investment manager LGIM. Voting rights are exercised by LGIM in accordance with their policies rather than those of the Trustee.

The Trustee's policy is to:

- (1) Make a range of options available that gives a broad choice of investments funds to members including responsible investment options;
- (2) Make options available which, under normal circumstances are readily realizable;
- (3) Reduce risk and cost to members, by offering passively managed fund options, wherever possible; and
- (4) Regularly review the arrangements offered to DC members to ensure they are fit for purpose.

As part of the annual Value for Members ("VfM") assessment, the Trustee reviews the investment manager fees levied to members and considers portfolio turnover costs.

The Trustee considers the objectives and policies listed in this document when choosing investments either for the self-select range or for inclusion within the default investment option.

## **7. Aligning Manager Appointments with Investment Strategy**

### ***For both the Defined Benefit and Defined Contribution sections***

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<sup>2</sup> The current version of the Measure is on the government website at <https://www.legislation.gov.uk/ukcm/2018/9/contents>

As the Trustee is a long-term investor, it does not expect to make investment manager changes on a frequent basis. Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. These characteristics will differ for each asset class.

A detailed assessment of the investment managers capabilities in relation to ESG and from a responsible investment perspective is undertaken prior to appointment and on an ongoing basis as part of the manager monitoring framework.

The Trustee will seek guidance from its Investment Consultant, where appropriate, for their forward-looking assessment of the investment managers' ability to outperform over a full market cycle. This view will be based on the Investment Consultant's assessment of each manager's idea generation, portfolio construction, implementation, and business management, in relation to the particular investment fund that the Scheme offers to its members. The Investment Consultant's manager research ratings assist with due diligence and are used in decisions around selection, and retention of manager appointments. The manager ratings are incorporated into the Trustee's monitoring reports.

Where the Scheme invests in an open-ended vehicle, or segregated mandate, with an investment manager, there is no set duration for the manager appointments. The Trustee expects to retain them unless:

- There is a change to the overall strategy that no longer requires exposure to that asset class or manager; or
- The investment manager has been reviewed and the Trustee has decided to terminate the mandate.

A review of a manager's appointment may be triggered by one or a combination of the non-exhaustive scenarios below:

- Sustained periods of under-performance;
- Change in the portfolio manager or team responsible;
- Change in underlying objectives or process of the investment manager;
- Concern over their ability to meet operational or ESG considerations, or
- Significant change to the Investment Consultant's rating of the manager.

For holdings in closed-ended vehicles, the Scheme would expect to be invested for the lifetime of the strategy (which is disclosed to the Trustee at point of investment), although secondary market sales could be considered under certain circumstances.

The Trustee reviews the performance of the investment managers on a regular basis versus agreed benchmarks and targets, over multiple periods, with an emphasis on the long term. This includes how the investment managers make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity, as well as how they engage with issuers of debt and equity in order to improve performance in the medium to long-term.

The Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is

dissatisfied, then it will look to replace the manager. Investment management fees are charged as a proportion of the value of assets being managed and, in some instances (DB section only), include an element based on investment performance. The fees are set on appointment and reviewed regularly thereafter. The Trustee takes advice to ensure the fees are appropriate.

## **8. Types of Investment**

### ***For the Defined Benefit section***

The common investment fund, the CEIFP, is well diversified in terms of the assets it holds and the range of investment managers employed to manage those assets. The asset classes invested in by the CAPF, and the managers of them, are listed on the Board's website.

The Trustee takes advice to ensure that the asset classes invested in by the Scheme are appropriate for it.

The split between the pools is determined by the characteristics of the Scheme, in particular its demographic profile, the spread of time over which its liabilities fall due, its long-term funding target, strength of sponsor covenant and the appetite for risk of the Trustee and the Scheme's sponsors.

The Trustee has set a strategic asset allocation to maintain full funding on a gilts + 0.4% p.a. basis but also to close the gap to buy-out over a period of 10 or so years. The Trustee's current policy is to maintain a high level of interest rate and inflation hedging on the Technical Provisions basis using physical gilts and index-linked gilts.

The Scheme may use synthetic instruments in a segregated fund (or via a pooled fund) to reduce risk or to improve operational efficiency.

The Scheme's allocation to specific assets is shown in its Annual Report.

### ***For the Defined Contribution section***

More detail about the default option is contained in the DC default option section.

In addition to the default investment option, the Trustee makes available a self-select investment range which aims to meet the varying investment needs, risk tolerances, return objectives and time horizons for Scheme members to choose as they see fit. The risks of these options are not considered in isolation but in conjunction with expected investment returns and anticipated retirement outcomes for members.

The self-select options consist of one alternative target date fund strategy (the annuity targeting journey), and a range of individual funds.

The Trustee believes that the self-select options available offer varying risk/return profiles catering for various member risk appetites and objectives. In designing the available fund range, the Trustee has explicitly considered the trade-off between risk and expected returns.

Members determine the balance between different kinds of investments they hold. This balance



will determine the expected return on members' assets and should be related to the members' own risk appetite and tolerances.

***For both the Defined Benefit and Defined Contribution sections***

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 responsible investment 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 the
- Impact of financial and non-financial factors, including those outlined in the Ethical and Responsible Investment section of this statement, on the investment over the long-term (and including how those matters are taken into account in the selection, retention and realisation of investments).

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, in relation to the Defined Benefit section, the investment team maintains its own independent ESG ratings for the appointed investment managers. These views assist the Trustee in its 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.

## **9. Realisation of Investments**

***For the Defined Benefit section***

The Defined Benefit section of the Scheme is closed to new members, but still open to the future accrual of benefits. The Scheme is cash-flow negative and so the Trustee ensures the Scheme assets are managed to provide sufficient liquidity to meet all benefit payments when they fall due.

For the Defined Benefit section, the Trustee does not directly consider the views of beneficiaries with regard to the selection, retention and realisation of investments. However, its investment beliefs reflect the Christian identity and values of the Scheme's beneficiaries, and

these are central to how the Scheme is invested, and the Trustee receives advice from the Ethical Investment Advisory Group (“EIAG”)<sup>3</sup> on Christian ethics and responsible investment, which the Trustee draws upon to determine its investment policies.

### ***For the Defined Contribution section***

The pooled investment vehicles used in the DC section are daily dealt, with assets mainly invested in regulated markets and therefore should be realisable at short notice, based on either Trustee’s or member demand. The selection, retention and realisation of investments within the pooled investment vehicles is the responsibility of the relevant investment manager.

## **10. Ethical and Responsible Investment**

### ***For the Defined Benefit and Defined Contribution sections***

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. The Trustee wishes to exercise its responsibilities as an asset owner fully.

The Trustee recognises 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.

### ***For the Defined Benefit section***

The Trustee regularly receives advice on the ethical implication of investments from the EIAG, which informs the Board’s investment policies.

The Trustee also values engagement with companies over responsible and ethical investment issues, and it considers engagement 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. The Trustee produces an annual Stewardship Report summarising its activities, which is available on the Board’s website.

The investment team produces a list of restricted investments, and maintains a list of excluded companies based on the Board’s ethical investment screens that reflect the ethical policies approved by the Trustee. Investment managers appointed by the Trustee are instructed to exclude these investments from their portfolios.

The Trustee expects companies in which the Scheme invests to demonstrate responsible employment and corporate governance practices; to be conscientious with regard to environmental performance and human rights; and to deal fairly with customers and suppliers and act with sensitivity to the communities in which they operate. When appointing its investment managers, the Trustee takes into consideration how they incorporate analysis of companies’ performance on ESG issues into their stock selection.

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<sup>3</sup> See the Church of England website for further details on the work of the EIAG.

Before an investment is made in a pooled vehicle, where the Trustee cannot directly influence the selection of individual investments, the Trustee will satisfy itself that the proportion of restricted investments (as shown on the Board's restricted list) in the pooled fund is not material.

The Trustee intends that the Scheme should vote at all company meetings held by its investee companies and therefore 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 EIAG, and a responsible proxy voting template developed with reference to other members of the Church Investors Group. The Trustee takes its own voting decisions and is not bound by any other investor in doing so.

The Scheme, via the Church of England Pensions Board, is a signatory to the UNPRI and has signatory status of the Financial Reporting Council's UK Stewardship Code. It is also a member of the IIGCC (Institutional Investors Group on Climate Change), a co-founder of the Transition Pathway Initiative ("TPI"), and heavily involved in various other collective engagement initiatives detailed in the Trustee's Stewardship Report.

### ***For the Defined Contribution section***

The Trustee offers ethical and conventional funds, recognising that members may not wish to have their investments bound by ethics. It is not currently possible to offer funds that are run on the basis of Church of England ethics/direct application of the Pension Board's policies for the DB funds, but the ethical funds are regularly reviewed by the Trustee to ensure they are as close as can currently be found. The Trustee has also made the employer aware of its other pension offerings through the Church Workers Pension Fund, which could be selected to offer full alignment.

The Trustee considers how ESG, climate change and stewardship are integrated within investment processes of new investment managers and monitoring of existing investment managers.

The Trustee notes that each investment manager of the underlying pooled funds offered on the platform has an investment management agreement or re-assurance agreement with the platform provider. The investment managers are responsible for managing the portfolios of assets within the investment guidelines, objectives, risk parameters and restrictions set out in the respective agreements but, subject to that, exercise discretion as appropriate when investing the portfolio.

As there is no direct relationship between the Trustee and the investment manager and due to the pooled fund structure, the Trustee believes the level of engagement and influence it can exert on the funds and companies invested is relatively low.

However, the Trustee considers its investment adviser's assessment of how each investment manager embeds ESG into its investment process and how the investment manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes consideration of the underlying investment managers' policy on voting and engagement and compliance with the Stewardship Code. The Trustee will use this assessment as part of their considerations when taking decisions around selection, retention, and realisation of

investment manager appointments.

The policies in this section are applicable to both the default investment option and the self-select fund range options.

The Trustee considers non-financial matters, specifically ethics (as advised by the EIAG) and more generally in the selection and retention of funds, while balancing its fiduciary responsibility to achieve its investment objectives.

The Trustee considers which areas would constitute 'significant' when it comes to company engagement by their fund managers. To consider the extent to which voting behaviour is consistent with the Scheme's investment objectives and stewardship priorities, the Trustee has classified 'significant votes' as those which consider any one of the following factors with relevant (but not exhaustive) examples:

- Climate change
- Pollution & natural resource degradation
- Human rights
- Diversity, equity, and inclusion

These stewardship priorities have been selected by the Trustee following a review and consideration of key priorities which the Trustee believes to be in members' best interests in light of the Trustee's investment beliefs and specifics of the Scheme. Ultimately voting decisions are made by the Trustee's fund manager LGIM.

The Trustee considers how ESG, climate change and stewardship is integrated within LGIM's investment processes in the monitoring process. The Trustee has requested key voting activities from LGIM during the Scheme year in order to consider this.

The Trustee has delegated voting rights to the investment manager, LGIM, and expect their investment managers to engage with the investee companies on their behalf. There has been no change in this policy during the year and the policy reflects best practice. The Trustee has requested information on voting records from the investment managers. Investment managers are expected to take into account current best practice, including UK Corporate Governance Code and the UK Stewardship Code. The Trustee considers investment managers policy on voting and engagement and use these assessments in the selection, retention and realisation of manager appointments.

The Trustee believes that the investment manager, LGIM, has the necessary expertise and framework in place to effectively manage and monitor investments in line with these areas, and this is implemented through their stewardship approach. The LGIM Investment Stewardship team focuses on client outcomes and broader societal and environmental impacts in its engagements with companies and policymakers. This spans consideration of systemic risks and macro developments through to company specific issues, implemented by LGIM using the following six step approach:

1. Identify the most material ESG issues
2. Enhance the power of engagement e.g. through public statements
3. Vote

4. Formulate a strategy
5. Collaborate with other shareholders and policy makers
6. Report to stakeholders

LGIM is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

A summary of the LGIM Stewardship themes and priorities can be found at:

<https://www.lgim.com/uk/en/capabilities/investment-stewardship/>

A copy of LGIM's Responsible and Sustainable investment report can be found at:

<https://group.legalandgeneral.com/en/sustainability/responsible-investing>

The Scheme also maintains a Stewardship Implementation Framework document, which summarises how the Trustee implements its commitment to ethical and responsible investment. (Stewardship and responsible investment | The Church of England)

## **11. Risk**

### ***For the Defined Benefit section***

The Trustee recognises that it is possible to select investments for the Scheme that are similar to its estimated liability cash flows. However, in order to meet the Scheme's objectives within a level of contributions that its sponsors have indicated they are able and willing to make, the Trustee has agreed to take investment risk. This seeks to target a greater return than the matching assets would provide, whilst maintaining a prudent approach to meeting the Scheme's liabilities.

The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustee recognises that whilst increasing investment risk increases potential return over the longer term, it also increases the risk of a shortfall in return relative to that required to cover the Scheme's liabilities, as well as producing more short-term volatility in the Scheme's funding position.

Whilst taking investment risk may lead to volatility in the funding levels of the Scheme, the Trustee feels that this risk is acceptable in view of the potential benefits of the expected extra return. The additional return should work through ultimately to greater security for the members of the Scheme and lower costs for its sponsors over the long term.

The Trustee considers a wide range of specific risks, including, but not limited to, those set out in Appendix 2 to this statement (which includes a range of financial and non-financial risks). Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each one.

The Trustee will from time-to-time use derivatives to manage risk and for efficient portfolio management. These will primarily be in the risk areas of currency, inflation, interest rates and longevity, and within the allocation to equities for efficient portfolio management purposes.

### ***For the Defined Contribution section***

The Trustee considers a wide range of specific risks, including, but not limited to, those set out in Appendix 2. The key DC specific risks considered by the Trustee and mitigated through the design of the default or self-select options (as shown in *italics*) are as follows:

- (1) **Risk of capital loss in nominal terms.** The protection of capital is fundamental in supporting the long-term growth of the members' individual accounts. However, members who have some time until retirement may be more prepared to accept a capital fall in order to obtain a higher long-term return.

*The Trustee has provided a default option which has an explicit allocation to assets that are expected to provide growth over the long term. The default reduces risk as members approach retirement, reducing the likelihood of falls.*

- (2) **Risk of erosion by inflation.** If investment returns lag inflation over the period of membership, the real (i.e., post inflation) value of members' individual accounts will decrease.

*The Trustee has provided a default option which has an explicit allocation to assets that are expected to outperform inflation over the long term. Members are also able to self-select funds, most of which are expected to outperform inflation over the long term.*

- (3) **Conversion risk.** The costs of converting a member's accumulated defined contribution account into pension benefits at retirement is influenced by a number of factors and depends on how the member intends to take their benefits at retirement.

*The Trustee has provided two journey strategies, one of which is the default option which invests in a way considered suitable for those members looking to take income drawdown in retirement.*

*Members may also self-select an annuity targeting journey, as well as a range self-select funds. The Trustee believes the range of options is suitable in meeting members' needs for different ways of taking benefits at retirement.*

- (4) **Environmental, Social and Corporate Governance risk.** The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.

The management of ESG related risks is delegated to LGIM.

See Section 10, above, for the Trustee's responsible investment and corporate governance statement.

The Trustee reviews the LGIM Stewardship Monitoring Report on an annual basis.

- (5) **Investment Manager risk.** The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.

The Trustee regularly reviews performance of investment funds.

- (6) Liquidity risk. The risk that the Scheme's assets cannot be realised at short notice in line with member demand.

The Scheme is invested in daily dealt and daily priced pooled funds.

## **I2. Additional Voluntary Contributions**

### ***For the Defined Benefit section***

DB Section members' Additional Voluntary Contributions ("AVCs") are invested in the Pension Builder Classic section of the Church Workers Pensions Fund.

### ***For the Defined Contribution section***

DC Section members have the same range funds available for their AVCs as for their main contributions.

Signed: Clive Mather, Chair  
Date: 19 September 2024.