

Welcome



Clive Mather
Chair of the Board



John Ball
CEO

Welcome to the 2021 edition of the Church of England Pensions Board's Stewardship Report.

The Board has a responsibility to steward almost £3.7bn of assets in our care, investing these funds sustainably for our members and in line with Church teachings. Good stewardship, which we view as fundamental for good long-term risk-adjusted returns, also involves using our voice – and partnerships with others – to drive change on the issues that matter to our members, and the world they will retire into.

Although this report focuses on 2021, it is published following the invasion of Ukraine by Russia. This war calls into question how the investment community assesses the actions

of governments and economies that break international norms. Due to an existing ethical exclusion, the Board was not invested in Russian government debt when the invasion occurred. We had no exposure to sanctioned companies, and exited from the few we were invested in the morning of the invasion. The horror of the war in Ukraine calls for further coordinated, robust action by investors, which we are committed to.

Despite the ongoing challenges of the global pandemic, in 2021 we achieved excellent investment returns, built on a foundation of responsible investment for a just and sustainable world. This report describes the progress on stewardship, including further progress on climate change and extractives, and new areas – such as the Asset Owner Diversity Charter and engagement on housing.

In 2021, we were pleased to be accepted as one of the first signatories of the new UK Stewardship Code. This report will further enhance our disclosure under that framework, and meet reporting recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Contents

Introduction	03
Adam Matthews, Chief Responsible Investment Officer	
Overview	04
The key facts and figures about the Board's investments in 2021.	
Our approach	08
Investing responsibly and in line with the Board's principles and beliefs.	
Investing for a sustainable world	11
How the Board invests to help tackle the global climate emergency.	
Investing for a just world	19
Through our investments we stand with the marginalised on topics such as human and indigenous rights, Living Wage and diversity.	
Good governance	26
How we deploy our expertise and use our votes to ensure that we are driving change on behalf of our members.	
Appendices	35
Disclosures referenced in this report including alignment with the Task Force on Climate-related Financial Disclosures and the UK Stewardship Code.	

Introduction



2021 was an important year in the Board's responsible investment stewardship of our members' assets. As an investor in most sectors of the global economy, we take a universal view of our ownership of assets which means driving systemic change that can impact whole sectors. We seek to create, or support, global standards as well as common frameworks to support best practice in the companies we hold or across the wider investment industry itself.

In 2021 we:

- led the global process to create a common Net Zero Investment Framework for pension funds that was recognised by the UN ahead of COP26 and used by the Board and funds around the world to set and achieve net zero targets
- secured major funding to rapidly scale the Transition Pathway Initiative (TPI) from assessing 500 companies to assessing 10,000
- made significant progress together with the UN to set up an independent Global Tailings Management Institute on mining safety

- led and launched a demanding Net Zero Standard for the oil and gas sector
- developed new stewardship programmes on diversity, on housing and, importantly, on the issue of indigenous community rights following the destruction of the 46,000-year-old sacred heritage site Juukan Gorge in Australia

Looking ahead

In this report we also set out our priorities for the coming year. 2022 will be an inflection point for responsible investors, with the war in Ukraine, and updated climate science from the IPCC challenging the fundamentals of how we as investors should act and the interventions we can make.

A key priority will be to look at how we and other pension funds can invest in supporting a just transition in emerging economies. After having created the first Net Zero Standard for oil and gas companies, we need to drive change in those sectors that demand energy such as autos and steel as well as focus on the role mining needs to play in providing the minerals for the transition. This continues to be an ambitious stewardship agenda that positions the fund to navigate, in our members' interests, the risks and opportunities while supporting a just and sustainable world.

Adam Matthews

Chief Responsible Investment Officer

Investments of our pension schemes

By the end of 2021, the Board was responsible for stewarding almost £3.7bn of assets, on behalf of 41,000 members, across three pension schemes. Around 700 different Church organisations participate in our schemes, including dioceses, parishes, Church charities and mission agencies.

The Board is one of three National Investing Bodies of the Church of England, alongside the Church Commissioners and the CBF Church of England Investment Fund (managed by CCLA).

Investments for the CEFPS, CWPF, and CAPF DB are pooled and invested in our common investment fund (totalling £3.5bn). Pooling allows the smaller schemes to access economies of scale and investment opportunities that might not otherwise be available. CAPF DC funds are invested with Legal & General.

The Pensions Board is Trustee of three regulated pension schemes:

Church of England Funded Pensions Scheme (CEFPS) provides pensions and benefits for clergy and others in ministry, for service from January 1998. Benefits earned before 1998 are administered by the Board and funded by the Church Commissioners.

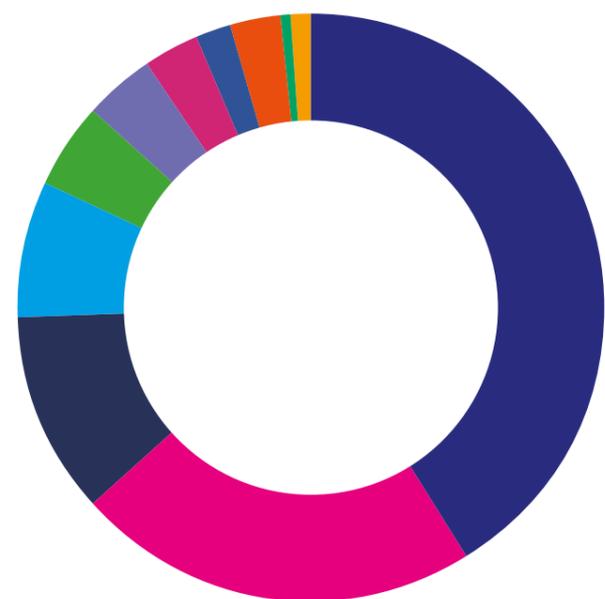
Church Workers Pension Fund (CWPF) provides pensions for the staff of employers linked to the ministry and mission of the Church of England. This has been the fastest growing scheme in recent

years, as parishes and other Church organisations have sought to offer qualifying employees a pension that meets auto-enrolment and has excellent ethical credentials.

Church Administrators Pension Fund (CAPF) provides pensions for the staff of the National Church Institutions. The fund has two sections – a defined benefits (DB) section, which closed to new entrants in 2006, and a defined contribution (DC) section.

At the end of 2021 the assets in the common investment fund were invested like this:

FUNDS UNDER STEWARDSHIP AS AT 31 DECEMBER 2021



Public Equities	£1,449m
Index-linked Gilts	£784m
Infrastructure	£392m
Property	£259m
Private Debt	£168m
Cash	£135m
Corporate Bonds	£109m
Emerging Market Debt	£71m
Private Equity	£98m
Currency Hedges	£18m
Alternative Income Assets	£31m

18.5%

Growth assets returned 18.5% (i.e. the public equity and div growth pools)

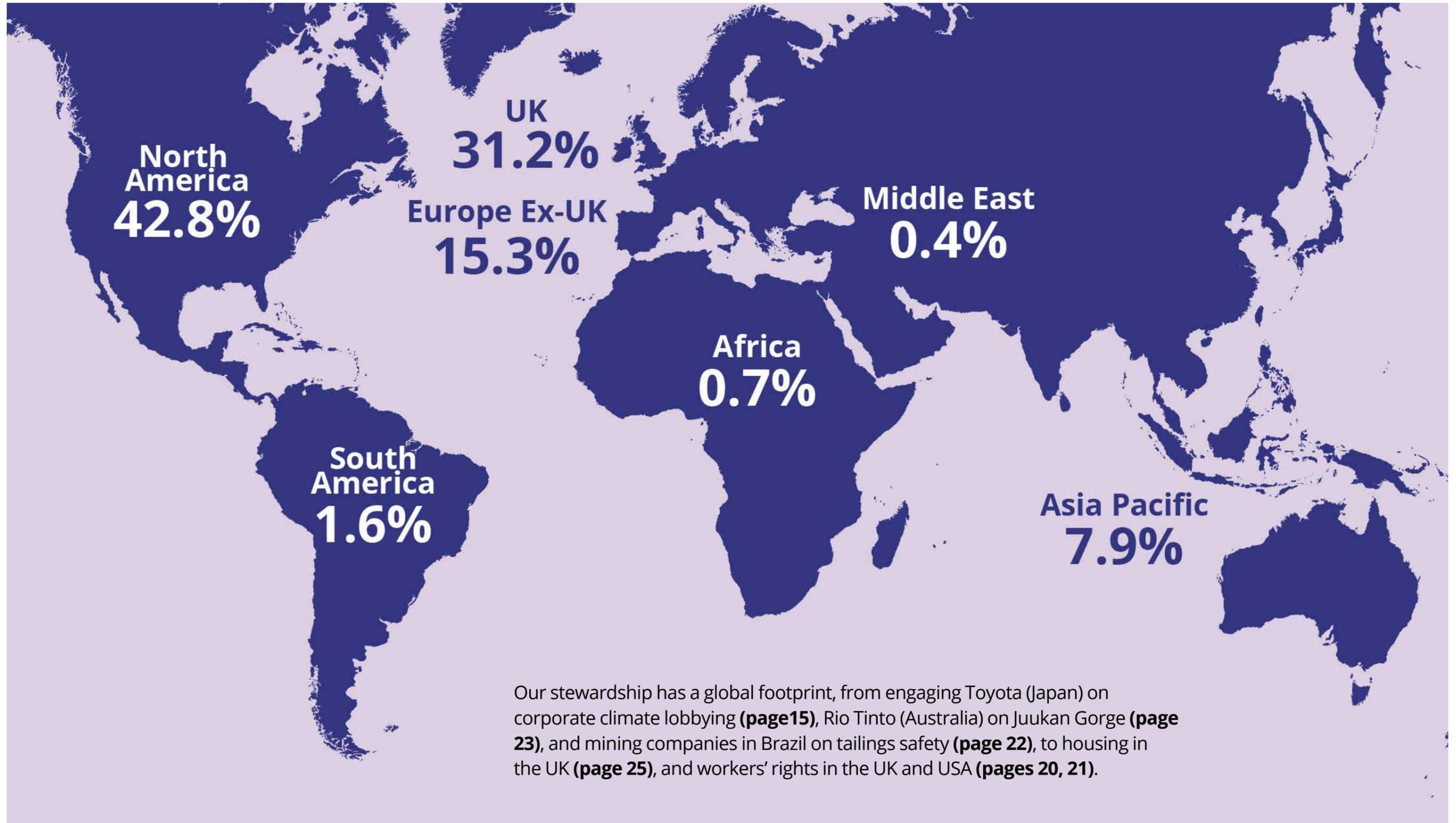
13%

The pooled assets, including those held specifically to match liabilities, returned 13%

8.7%

Annualised returns over the past five years have been 8.7%

GEOGRAPHICAL DISTRIBUTION OF OUR INVESTMENTS



Key highlights from 2021

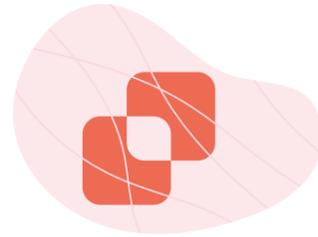
OUR ACTIONS ON BEHALF OF OUR MEMBERS

We are an active investor.
Last year we...



26,520

Voted on 26,520 ballots at 1,873 company meetings, with 17.2% of votes against management.



467

Excluded 467 companies from investment on ethical/responsible investment grounds (including 28 new exclusions related to climate change).

We lead major global initiatives to drive change.
Last year we...



Continued to chair the Transition Pathway Initiative (TPI), which provides the “go-to” investor method for assessing the quality of a company’s carbon reduction plan.



10,000

Announced plans to scale TPI analysis to cover more than 10,000 companies from 479 today.



Led the \$20trn Investor Mining and Tailings Safety Initiative, aimed at improving safety throughout the mining sector.

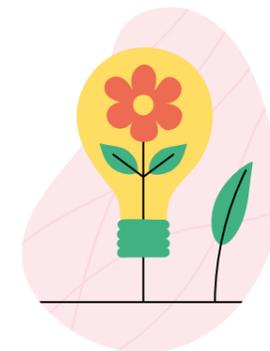


482

Engaged 482 companies on **823** occasions on climate change, labour practices, indigenous rights and mining safety.



Led the creation of a new and demanding Net Zero Standard for the oil and gas sector.



Steered the development of the first Global Standard on Responsible Climate Lobbying.



Launched with BT Pension Fund the ASCOR (Assessing Sovereign Climate-related Opportunities and Risks) Project to assess government debt on climate criteria.

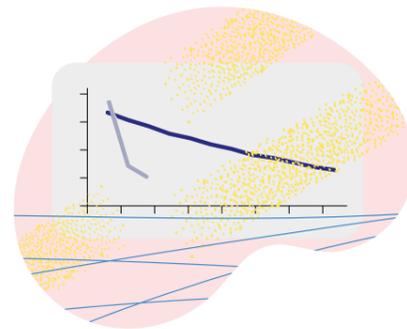
Key highlights from 2021

OUR ACTIONS ON BEHALF OF OUR MEMBERS

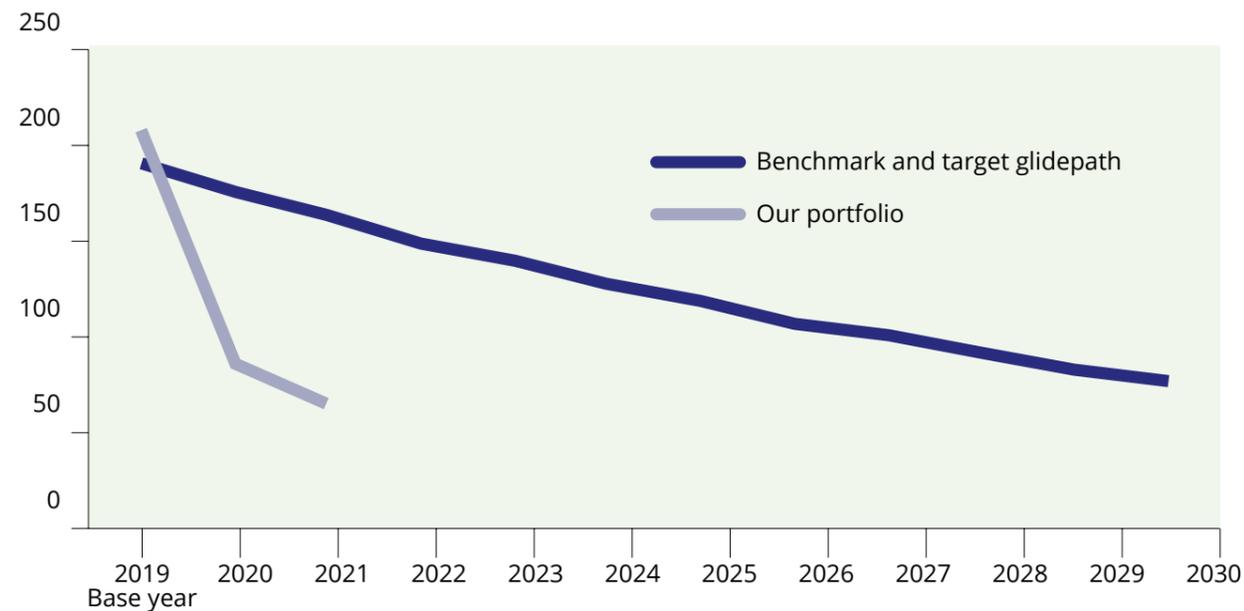
We invest sustainably.
Last year we...

74.3 tCO₂/\$m

Delivered a further reduction in the carbon intensity of our portfolio of investments (from 93.6 tCO₂/\$m in 2020 to 74.3 tCO₂/\$m in 2021), in line with our commitment to achieve net zero by 2050 or sooner. We are well ahead of our target.



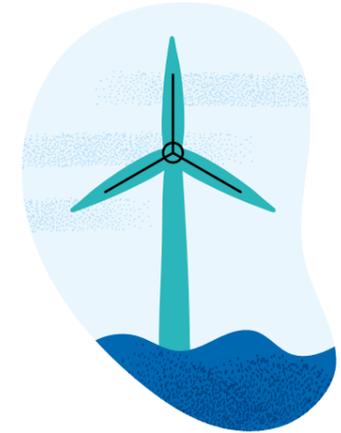
How we are doing on our net zero target



Our target is a 7% year-on-year reduction from a 2019 benchmark baseline

12x

Our investments in climate solutions/green revenues were almost 12x the total value of our investments in oil and gas.



£118.7m

The Board held £58m in climate solution/green revenue investments in public markets and a further £60.8m in private markets.



0.28%

Just 0.28% of the fund was invested in oil and gas at the end of December, as we led the development of a global Net Zero Standard for the sector.



Our approach

Our integrated approach to responsible investment uses a full range of tools – from proxy voting and manager monitoring to impactful engagement.



Our approach

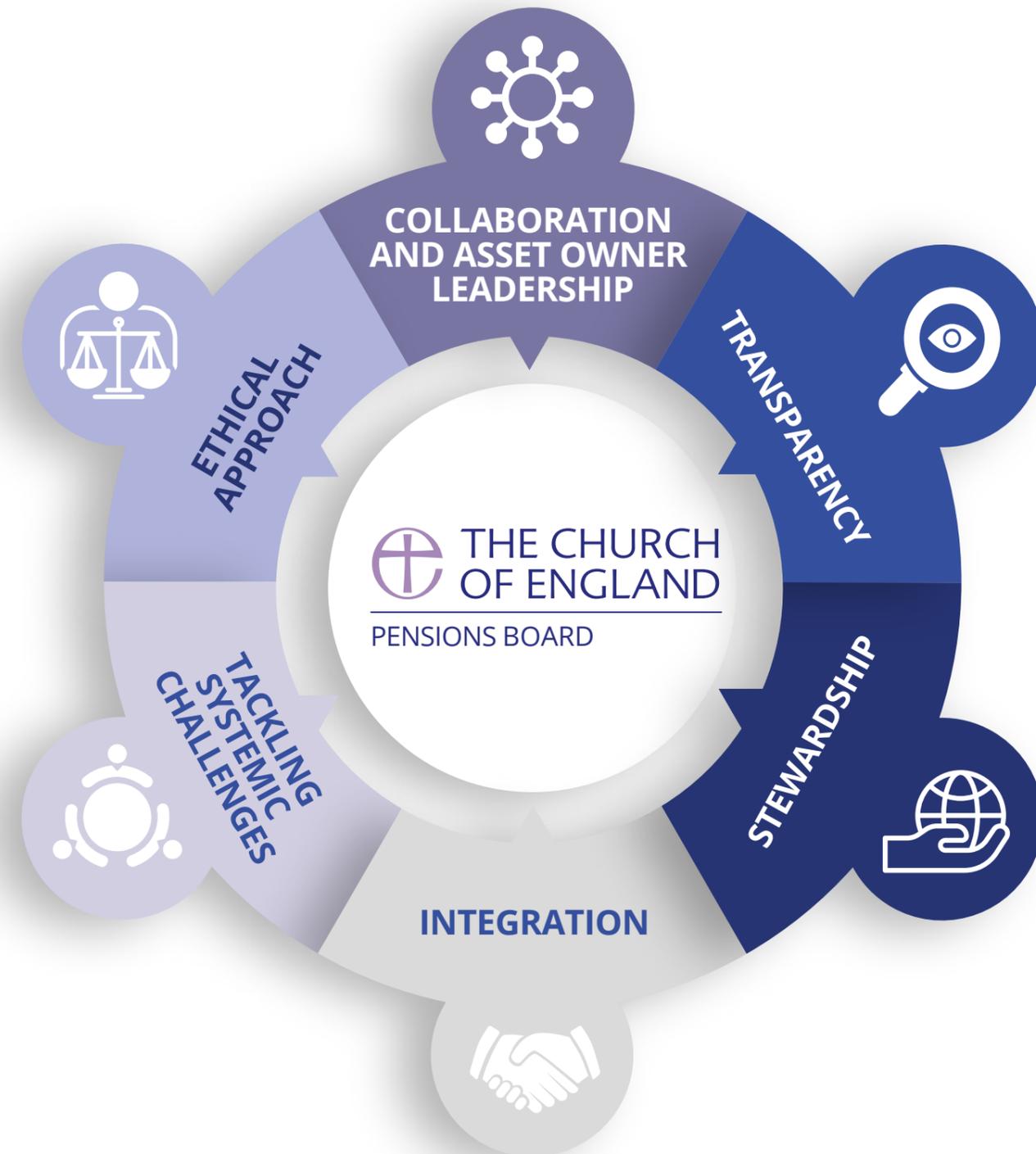
We believe that stewardship is integral to being a responsible investor, both financially and ethically. It is directly linked to the risk/return profile of our investments and to our responsibilities as part of the Church of England. This is enshrined in the Board's Investment Principles and Beliefs (see [CofE.io/InvestmentPrinciples](https://www.cofe.io/InvestmentPrinciples)).

Effective stewardship requires not only reliable data and good internal systems, capacity and integration, but also leadership, a willingness to speak out, set demanding policies and best practice standards, and a commitment to developing and supporting long-term partnerships and collaborations.

We have a comprehensive approach to our stewardship, comprising corporate engagement, proxy voting, asset manager monitoring and engagement, a restricted list of companies our managers may not invest in, collaborations with other investors, and strategic partnerships with others, such as the United Nations Environment Programme and the London School of Economics (LSE).

When we act on behalf of our members and mobilise the power of the assets entrusted to us, and when we work through partnerships with other investing institutions, we believe it is possible to drive positive change not just in individual company behaviour, but in systemically important issues with the potential to influence behaviours of entire sectors.

OUR INTEGRATED APPROACH TO STEWARDSHIP



THE CHURCH OF ENGLAND PENSIONS BOARD



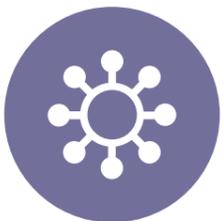
Ethical Approach

The way we invest impacts society and the environment, so we work to guard against risks and seek beneficial outcomes. We apply ethical investment policies, informed by the advice of the Church's independent Ethical Investment Advisory Group (EIAG). The EIAG brings together leading experts, from a range of backgrounds, to develop timely and practical ethical investment advice, based on Anglican and Christian theology.



Tackling Systemic Challenges

Our investment time horizon is measured in decades rather than quarters, and we recognise that certain issues pose systemic challenges to our investments and the world our members will retire into. We therefore prioritise engagement on cross-cutting issues, such as climate change, and with extractive industries, and we devise long-term interventions that seek systemic change on those issues (pages 9 and 18).



Collaboration and Asset Owner Leadership

No single pension fund is sufficiently big or influential enough, in its own right, to drive the level of change needed on issues such as climate change. Therefore, we regularly set up or support collaborations led by asset owners. We also recognise that there are times when we are uniquely placed to provide leadership across the investment industry globally, on issues in line with our fund's objectives (see Climate Change, Extractives and page 33).



Integration

We apply an integrated stewardship approach in order to deliver sustainable investment returns in the long-term interests of our members. This forms part of our formal "investment beliefs", and we operate as one integrated investment team, co-led by the Chief Investment Officer (CIO) and Chief Responsible Investment Officer (CRIO).



Transparency

Providing clear, measurable evidence of the approach we take enables better stakeholder understanding of our work. This is an important principle that also helps us model best practice within the investment sector. In 2020, we began disclosing the way we vote at all our company annual general meetings (AGMs) and we continued to develop projects that promote transparency among the companies we invest in (e.g. pages 13, 15 and 21).



Stewardship

Responsibly allocating and managing our investments is central to our values. We are an active asset owner and dedicate in-house resources to proxy voting, maintaining a list of excluded investments, and delivering impactful corporate and policy engagement. Our approach includes developing collaborative tools to enable action across the finance sector in support of responsible investment and active stewardship (see examples on pages 13, 16, 17, 22 and 34).

Investing for a sustainable world

Climate change is already affecting the world around us. Through the Anglican Communion we are acutely aware of its impact on the poorest people globally and those least able to adapt. How we invest matters to our ability to counteract the climate crisis and to prepare for the transition to a low-carbon economy.

479

The number of companies assessed under the Transition Pathway Initiative (TPI).

21%

The reduction in carbon intensity of our holdings compared to 2020.

65

In 2021 we raised the issue of climate lobbying with 65 listed companies in America, Asia, Australasia and Europe.

Climate change

We are in the midst of a climate emergency. Climate change is already having a profound effect on the world around us.

Investors have a significant part to play in building a more sustainable, low-carbon future. The climate transition is therefore at the heart of our investment approach, both as a risk and an opportunity that we must address on behalf of our members, through engagement with our managers, with companies and with public policymakers.

We continue to chair and lead the Transition Pathway Initiative (TPI), which has grown to be supported by 120 funds with over \$40trn in assets under management (AUM). TPI has become the global investment tool, providing a robust, independent and transparent way to assess companies' preparedness for the transition to a low-carbon economy, including those companies in which we are invested.

2021 marked a "coming of age" for TPI, with the announcement of a TPI Global Climate Transition Centre, which will significantly scale the depth and breadth of TPI's coverage to over 10,000 companies, as well as assess Government Sovereign Bonds.

The Centre will be based at the London School of Economics' Grantham Research Institute, with multimillion-pound funding secured to support it. We were delighted that the world's largest fund manager, BlackRock, also announced it would join TPI as a supporter.



At a glance: the Transition Pathway Initiative

The TPI was established in 2017 as a joint initiative between the Church of England National Investing Bodies, of which the Pensions Board is one, and the Environment Agency Pension Fund. Today it has grown to cover:

SUPPORTERS

120
Supporters

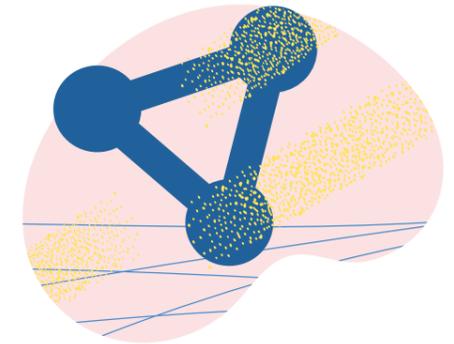


ASSESSMENTS

479
Companies



16
Sectors



\$40trn
Combined AUM



46
Countries
of location



£10trn
Market cap of
companies assessed



SECTORAL BENCHMARKS

2
**Benchmarks
for energy**
Electricity, oil
and gas



3
**Benchmarks
for transport**
Autos, aviation
and shipping



5
**Benchmarks for
industrial and materials**
Aluminium, cement,
diversified mining,
paper and steel



Source: <https://transitionpathwayinitiative.org/publications/100.pdf?type=Publication>



How does the Board use TPI?

TPI is at the heart of the Board's approach to climate change.

We believe the effort by us, and with our partners, to establish TPI and to develop the initiative to where it is today, represents significant stewardship activity. TPI provides a vital and free tool to support investment decisions, accessible to the general public and available to the whole financial sector. It is also increasingly being recognised as part of the "accountability architecture" for climate change. We integrate TPI assessments into our

passive investment allocation (now over \$950m – see last year's stewardship report: cofe.io/PBStewardshipReport2020), our proxy voting (see pages 27 and 38), our asset manager monitoring, and our divestment decision-making. TPI forms part our commitment to General Synod to have divested any oil and gas company not aligned to the transition by 2023 (as assessed by TPI).

CASE STUDY

GLOBAL CLIMATE TRANSITION CENTRE

On 15 November 2021 in Glasgow, the President of COP26, the Rt Hon Alok Sharma MP, joined the Archbishop of Canterbury, Justin Welby, and the Board to announce the creation of the TPI Global Climate Transition Centre at the opening of the London Stock Exchange.

The Centre will be based at the Grantham Research Institute on Climate Change at the London School of Economics. Almost half of global assets under management are now using the insights of TPI directly, or through initiatives such as Climate Action 100+ (CA100+). In time, the Centre will have the capability to scale up to assess over 10,000 companies (compared with 479 of the most carbon-intensive companies assessed today).

TPI will also scrutinise corporate and sovereign bond issuers. This extended analysis will be a key foundation of work post-COP26 to support transparency, accountability and action on climate commitments by the world's asset owners and fund managers. The Centre will also continue to provide the Net Zero Company Benchmark assessment for the global investor engagement initiative, CA100+, which targets real-world emission reductions by 167 of the world's most carbon-intensive companies.

Corporate climate lobbying



The Board continues to lead a European-wide engagement on corporate climate lobbying. How companies engage with public policy is critical to the regulatory landscape that will support the transition. Too often, negative lobbying by industry associations has sought to delay or oppose climate legislation. As a result, we have led a European-wide effort to drive best practice and transparency in corporate lobbying.

Lobbying transparency

In the past year, we directly raised the issue of climate lobbying with 65 listed companies based in America, Asia, Australasia and Europe. We have continued to spearhead the issue of corporate climate lobbying in our role as co-chair of the European Investors Working Group on this issue, alongside Swedish pension fund AP7 (EUR72bn) and BNP Paribas Asset Management

(EUR474bn). We were pleased to partner with civil society organisations ClientEarth and InfluenceMap, as well as the Institutional Investors Group on Climate Change (IIGCC) investors that play a lead role in engaging on behalf of CA100+ to secure improved disclosures at eight European companies, during 2021: Bayer, Enel, ENGIE, Fortum, HeidelbergCement, Holcim, SSE and Volvo. We find that the best outcomes are achieved when companies recognise that listening to, engaging with and adapting to the views of concerned investors makes for good governance performance and reduced risks.

During the past year's engagements, we particularly note the willingness of Bayer, ENGIE and Fortum to incorporate our feedback in their approaches. Although lobbying disclosure alone will not fix the climate crisis, these are significant moves in the right

direction for these companies and we commend all of them for their improved transparency. The past year showed that, overall, Europe's road transport sector continued to be poor performers in terms of lobbying transparency and practice, so this will be a concerted area of focus in the coming year.

Corporate climate lobbying has global impacts on policy and the economy, regardless of where the activity is financed or focused. For this reason, we have deepened our coordination with international stakeholders, through the CA100+ initiative, in order to make the most of our collective international insights and efforts. This year, for the first time, we included a non-European company as the focus of our engagement escalation: Toyota, which is the world's largest car manufacturer and based in Japan. We were pleased to lend our support, alongside Sweden's AP7 and Norway's Storebrand Asset Management, to an engagement led by Denmark's AkademikerPension.

Early in 2021, this included meeting with the company's Chief Financial Officer to broker a commitment on climate lobbying disclosure. We then worked with Toyota and external stakeholders, including InfluenceMap, throughout the year to ensure that the company was well equipped to deliver its first lobbying review. Toyota has pledged to continue working with stakeholders to further improve its transparency, and we will be keeping that dialogue open so we can support further progress.

Driving up standards on corporate climate lobbying

Public climate policy is not only a matter of societal concern, but also an issue of financial significance for corporations and their investors. Addressing climate calls for action on two fronts, companies and their representatives need to cease negative lobbying activity aimed at delaying, diluting or preventing more ambitious climate policy. They also need to actively engage in positive lobbying, in support of timely and effective policy. It was clear from events over the past year – marked by examples such as the absence of certain companies from high profile commitments made at COP26 or the unrelenting public advocacy campaign in the USA to undermine key environmental provisions as they pass through Congress – that responsible, positive climate lobbying is still too rare.

The Pensions Board believes all investors have a responsibility to address this, and it is a priority area where we will deepen our focus and impact in 2022 with the launch of the Global Standard on Responsible Climate Lobbying. This set of 14 indicators is the product of over two years of collaboration, in partnership with AP7, BNP Paribas Asset Management, Chronos Sustainability, an expert advisory group and the input of more than 150 stakeholders during a two-part public consultation. We expect this to set the global best practice standard for corporate climate lobbying, against which companies' performance will be assessed and they will be engaged.

For more information visit:
www.climate-lobbying.com



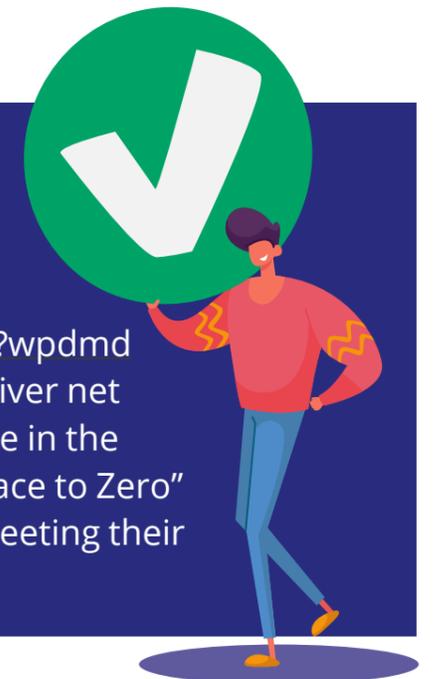
We've secured significant progress on transparency related to corporate climate lobbying in recent years. However, in many cases this is undermined by what companies are actually supporting in practice. With the 2022 launch of the Global Standard on Responsible Climate Lobbying, our aim is to drive even greater understanding of these activities as a blocker or enabler of the net zero transition. No investor or Board member should be in any doubt that climate lobbying is a key issue requiring their urgent attention.

Clare Richards, Senior Engagement Manager



A Net Zero Framework for Pension Funds Around the World

In March 2021, the Board, co-chairing the Paris Aligned Investment Initiative with Europe's largest pension fund, APG, as part of the European IIGCC, published the Net Zero Investment Framework's 1.5 degree implementation guide: [www.iigcc.org/download/net-zero-investment-framework-implementation-guide/?wpdmdl=4425&refresh=622f3bc27f6351647262658]. This guide, to help pension funds deliver net zero commitments credibly, provides a framework that is focused on driving change in the real economy. The Paris Aligned Investment Initiative is now recognised as a UN "Race to Zero" partner, and commitments made using this framework have been recognised as meeting their criteria for net zero.



Net Zero Standard for oil and gas



Together with IIGCC and TPI, more than 20 leading global investors with collective assets of \$10.4trn have led the engagement with leading oil and gas companies – including BP, Shell and TotalEnergies – to inform the creation of the first Net Zero Standard for the oil and gas sector.

The Pensions Board chaired the process to develop the Standard, which stresses the need for comprehensive absolute and intensity emissions targets (covering all material emissions), as well as alignment of capital expenditure and production plans with a net zero target. It acknowledges “winding-down” as a legitimate strategy, as well as diversifying energy offerings or working through a company’s value chain to reshape demand.

Published in September 2021, the Net Zero Standard outlines the actions that oil and gas companies should be taking and how they should be reporting on those actions so that investors have a level playing field to evaluate their progress effectively.

CASE STUDY

CLIMATE ENGAGEMENT

At the start of 2021, the Church of England National Investing Bodies jointly set a “hurdle” to encourage companies to engage on disclosing their progress in adhering to TPI.

The hurdle involved measuring a number of companies within the CA100+ priority list, on both TPI management quality and carbon performance expectations. We took responsibility for engaging with 17 of those companies.

Outcomes: Of the 17, 5 passed the hurdles and 12 failed. As a consequence of engagement across all National Investing Bodies, 28 companies were added to our restricted list. A further 9 made enough change to remain unrestricted into 2022.

Impact for our investments: Of all the companies in scope, we held investments in only one, Enbridge. The Enbridge Board responded to our engagement positively, detailing its net zero plans and passing the hurdle.

CASE STUDY

CA100+ ENGAGEMENT

On behalf of the CA100+ global engagement initiative – targeting the world’s highest emitting companies and supported by funds with more than \$60trn AUM – we currently lead climate engagement with Shell.

In June, Shell announced the acceleration of its plans to achieve net zero and was the first oil and gas company to publish a transition plan that was put to a full shareholder vote at the AGM.

Despite continued progress by Shell, the Board set out our expectations at the AGM: the company needs to take further steps on absolute emissions targets, and in evidencing alignment of their capital expenditure in accordance with the TPI-supported Net Zero Company Benchmark assessment for CA100+. The Board clearly stated to the Board at Shell that unless it met these criteria, we will disinvest our holding, in line with our commitment to General Synod.

CASE STUDY

JUST TRANSITION

The need to transition to a net zero economy has social and environmental implications.

Workers, suppliers, communities and consumers will all be affected in some way by the economy-wide efforts required to reduce carbon emissions and meet the Paris Agreement goals.

Perspectives over who benefits and who stands to lose have the potential to determine how quickly we achieve decarbonisation targets and how just and fair the society is that we reshape along the way.

Throughout 2021, we supported and participated in multi-stakeholder discussions as part of the Financing a Just Transition Alliance (FJTA).

Coordinated by the London School of Economics' Grantham Research Institute, and bringing together almost 50 stakeholder representatives (ranging from the finance sector, to local authorities, to trade unions), the FJTA met several times during the year to develop thinking to help shape investors' responses on what is needed to deliver a just transition, and to discuss how we are making progress towards this collectively.



From these discussions, a key finding of the FJTA's *Just Zero* report (October 2021) is that financial institutions can, and indeed must, play a significant role by fully integrating the environmental and social dimensions of the transition into their policies and decision-making.

The Pensions Board is also supporting the inclusion of a new set of indicators

tracking company approaches to this issue, through the CA100+ Net Zero Benchmark.

The benchmark will focus on this issue for the first time in 2022. A key priority for the Board will also be how investments can support the just transition in emerging economies to ensure that no communities and workers are left behind.

Investing for a just world

Along with a continued focus on safety in the mining industry, over the past year we have spent significant time on other social issues that affect specific communities and marginalised groups. This includes (in the UK) a focus on how better social housing can support communities and help them to flourish.

18

We were one of the 18 signatories to the Asset Owner Diversity Charter.

67

We co-convened 67 of the world's biggest investors to ask for mining disclosures.

18

We wrote to 18 housing associations on tenant voice in support of the Archbishops' Commission on Housing's *Coming Home* report.

95%

Diversity statistics were disclosed by 95% of our asset managers.

Human rights and workers' rights

In 2021, the Church of England's Ethical Investment Advisory Group (EIAG) published its advice on human rights, with a new policy agreed by the National Investing Bodies.

This sets out the ways in which we expect businesses to apply an active commitment to preventing or mitigating the risk of adverse impacts on human rights in all their activities. As part of our own commitment to upholding this policy, we formalised our support for the Corporate Human Rights Benchmark and continued our support for collaborative engagements coordinated by the Investor Alliance for Human Rights, as well as initiatives coordinated by CCLA and Rathbones focusing on modern day slavery. Promoting human dignity and human rights is central to many of our engagement topics, ranging from a focus on the

needs of communities affected by mining, through to engaging with specific companies where we have identified concerns. We also promote the importance of upholding workers' rights by the companies in which we invest. The treatment, be it good or bad, and empowerment of people within the workplace, can have far-reaching impacts beyond the individual, affecting the family, community and society.

To better understand how companies approach this responsibility, and with the aim of encouraging their attention to, and disclosure of, workforce-related topics, we engaged with companies again to participate in the Workforce Disclosure Initiative, as part of a collaborative effort which attracted a record 173 corporate responses to the disclosure request in 2021.



Mining community protests over lack of food and jobs in Rustenburg, South Africa.

CASE STUDY

AMAZON, FREEDOM OF ASSOCIATION

We expect any company we invest in to implement a commitment and adhere to the International Labour Organisation (ILO) Conventions, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Universal Declaration of Human Rights.

In early 2021, we joined Scandinavian investors Öhman Fonder and Folksam in engaging Amazon. The engagement was due to concerns over Amazon's policies and approach to respecting labour rights in its operations and supply chain. The company continues to grow and profit substantially, but also attracts controversy over its contracts, workplace conditions and the average tenure of staff. Our intervention was prompted by attempts by US workers in Bessemer, Alabama, to unionise, and we sought a dialogue with members of Amazon's Board to discuss this issue. Amazon's response was unsatisfactory. In the event, the Bessemer 2021 vote was set aside, as the US National Labor Relations Board concluded that Amazon's conduct "interfered with the laboratory conditions necessary to conduct a fair election". The vote will be re-run in 2022. We continue to monitor the approach of the company and will engage further as needed.

Living wage and living hours

The National Church Institutions (NCIs), of which the Pensions Board is a part, have been accredited as a Living Wage employer for several years.

Outside of our own payroll, the expectation that workers should receive a fair hourly rate that they can live on (rather than simply a bare minimum wage) is something that we promote, through engagement with companies and by means of our voting policy.

However, we recognise that hourly pay is only one part of the equation – actually having a job that provides sufficient hours at that living wage is also vitally important, as is having advance notice of shift patterns so that other obligations, such as childcare and travel, can be planned.

We think this approach is good for individual workers, good for their families and communities, and good for workforce retention. So in 2021, we added our support to engagements coordinated by the Church Investors Group and responsible investment charity ShareAction, which together targeted more than 30 companies with the aim of encouraging them to provide greater certainty and security to workers.

This is a new area of engagement, so conversations are at an early stage, but we intend to report our progress on Living Hours employment in our next Stewardship Report.



The Living Wage Foundation estimates that 5.1 million workers in the UK are on contracts with insecure hours. As part of our efforts to support a Living Wage, we welcomed steps taken by UK companies Persimmon and Taylor Wimpey, completing their accreditation as Living Wage employers. Additionally, high profile commitments, such as those made by Unilever (setting a 2030 target for its direct supply chain) were important for signalling that paying a Living Wage is a strategic business decision, rather than simply the fair thing to do.

Mining

Mining is a vital industry for the transition to a low-carbon economy and one of our priority areas for company engagement. In 2021, we continued our focus on safety of tailings dams.

2019

Demand for Action.

We led global demands of investors that the Brumadinho disaster that killed 270 people should lead to fundamental changes in the mining sector.

We convened a series of multi-stakeholder roundtables, issued a call to industry outlining the need for a global standard, and a disclosure request to the industry, which led to 87% of the mining industry by market capitalisation responding to our request.



2020

Global transparency and a Global Standard.

We partnered with GRID-Arendal and The University of Sydney to develop the Global Tailings Data Portal, to drive transparency on 1,800 tailings facilities, gathered as a result of the 2019 request. We co-convened the process to create a new global safety standard in tailings management.

The Pensions Board also acted on behalf of UN-backed Principles for Responsible Investment and alongside the UN Environment Programme and International Council on Mining and Metals (ICMM) to co-convene a process to develop the first Global Industry Standard on Tailings Management (GISTM). This involved a long and thorough multi-stakeholder and consultative process under an independent Chair, Dr Bruno Oberle.

2021

Adoption of the standard and process to set up an independent global institute to monitor implementation.

Via corporate engagement, we followed up on the 300 letters we sent in December 2020, and in 2021 secured commitments from 78 mining companies to adopt or scope the adoption of the GISTM. We plan in 2022 to announce our intention to vote against the Chairs of any mining company that has not committed to adopting the GISTM. In relation to institutional support for the GISTM, in 2021 we partnered with the UN Environment Programme to recruit a senior consultant and convene a multi-stakeholder advisory council to develop the Global Tailings Management Institute. During 2021, this group met to discuss and agree terms of reference, organisational objectives, operating models/plans, and funding. We intend to announce the launch of the Global Institute later in 2022.

Indigenous rights and mining

On 24 May 2020, sites of significant cultural heritage in the Juukan Gorge in Western Australia were blown up by Rio Tinto, the world's second largest mining company, to expand one of their mines.

The event was a catastrophic loss first and foremost to the Puutu Kunti Kurrama and Pinikura people, whose ancestors have inhabited the site for around 46,000 years. This is heritage older than Stonehenge, the Pyramids and the Lascaux caves combined.

Mining is a critical part of global supply chains. It's an economic activity that needs to be conducted with sensitivity to the rights of indigenous peoples, who, as detailed in our Extractive Industries Policy, have rights and claims where resource-rich sites are within their lands. As a result of Rio Tinto's actions in 2020, we engaged directly with the mining giant, and on Radio 4's *Today Programme* we publicly called for its Board to consider the position of the Chief Executive Officer and questioned the limited nature of the company's response to the incident.

Despite Rio Tinto's financial success, the pressure of investors and other stakeholders, and wider societal outcry at the cultural vandalism, saw the departure of the Chairman, Chief Executive Officer and other executives. This has become one of the clearest examples of senior executives losing their positions as a result of a "social" issue.



Juukan Gorge, Australia

However, as with the issue of the Brumadinho dam disaster, this particular incident raised significant questions for both investors and companies about how we address the rights of indigenous communities when interacting with mining companies. In late 2020 and 2021, we led an international process to engage the largest 78 mining companies on this topic. Working with the Australian Council of Superannuation Investors (ACSI), we convened a group of 67 international investors, with the collective AUM of \$20trn, asking the 78 companies for specific disclosures and examples of best practice.

Our disclosure request led to comprehensive responses from 59 companies.

Following analysis of the responses, a series of company engagements have ensued. Our findings have contributed to a new set of investor and industry guidance, published by ACSI in December 2021, and advocacy on Australian Aboriginal Heritage legislative reform. The Board continues to lead the global collaboration of investors on this issue; the lessons learnt will inform investor engagement in other domains, and will form a key part of the Mining 2030 Agenda that we have convened (page 34).

Promoting diversity in the finance sector and wider economy

In July 2021, the Board joined 18 of our UK peers to become founding signatories to the Asset Owner Diversity Charter.

Chaired by Brunel Pension Partnership and Lothian Pension Fund, its objective is to highlight the issue of diversity in all its forms within the investment industry and improve performance. Fundamentally, an investment industry that is more representative of the society it serves will be fairer, lead to greater insights and ultimately result in better decision-making.

Our commitment to the Charter has prompted us to probe this issue in a systematic way, with all of the asset management firms that count us as a client.

As part of our commitment to the Charter, we are also reviewing our own policies and processes, including procurement. This is an extension of the ways we have sought to promote diversity for several years in listed companies (through our membership of the



30% Club and our in-house policy for voting to promote gender and ethnic diversity at the companies in which we invest).

We recognise that understanding continues to develop around the types of policies and culture that help businesses attract and retain a diverse workforce and remain competitive. And we believe that sharing and learning from different initiatives will be beneficial.

We have been pleased with the collaborative way our asset managers have responded to this request and look forward to ongoing dialogue with our managers as a routine part of our manager monitoring.

For more about the Charter, visit diversityproject.com/assetownerdiversitycharter

We have assessed diversity data on 95% of our asset managers, as part of a new annual assessment to be integrated into our manager monitoring.



Tackling the housing crisis

In 2021, we began to engage with the UK social housing sector to explore how, as an investor, we can influence improvements in the quality, affordability and sustainability of the homes they provide.



The inspiration for this work was the publication of a report, *Coming Home*, from the Archbishops' Commission on Housing, Church and Community, which set out recommendations for how to achieve more affordable homes and stronger communities that people can be proud of and where they can flourish.

The Pensions Board focused the first phase of our engagement with housing associations on the issue of "tenant voice", which is a proven business and social risk. The Grenfell Fire in 2017 was devastating for that West London community and a tragic case study of what can happen when residents' concerns are not heard, considered and acted upon. The fallout from that disaster remains the focus of a public inquiry.

We identified 18 housing associations for our initial engagement, around two-thirds of which are ones where we hold corporate bonds and others that are significant within the sector.

On the whole, we were satisfied with the openness of housing associations to engage with our request for information, and we are working to follow up on the examples of better practice that we detected, as well as areas of concern.

As part of our research for this engagement, we were disappointed to note that only 2 of the 18 housing associations are accredited Living Wage employers, despite low pay being a major contributor to people's constrained housing options. The Board's intention is to develop this area of work into a comprehensive sector-wide engagement, based upon the five values outlined in the *Coming Home* report.



"We are at the beginning of what has the potential to be a significant engagement with the social housing sector. This is an area that often seems neglected by investors. On the issue of tenant voice, the findings of our initial engagement indicate that good practice is possible but it is too patchy, and standards need to improve consistently across the sector.

Clare Richards, Senior Engagement Manager



JARGON BUSTER

CORPORATE BONDS

The Pensions Board's investments include bonds held in countries (sovereign bonds) or businesses (corporate bonds).

Bonds provide a fixed income investment, as we know what level of guaranteed returns a specific bond will generate in the long term, rather than fluctuating as share prices do on public markets. However, unlike with shareholdings, being a bond holder does not give us the right to vote or file a resolution at a company Annual General Meeting.

Good governance

As an asset owner, we exercise our votes in the companies in which we invest to change corporate practice for the better.

26,520

The number of annual general meeting ballots we voted on in 2021.

99%

We voted on 99% of eligible ballots at AGMs of companies we invest in.

688

The number of shareholder-proposed resolutions we voted on in 2021.

70%

We increased the coverage of our enhanced responsible investment assessment to 70% of managers.



Voting

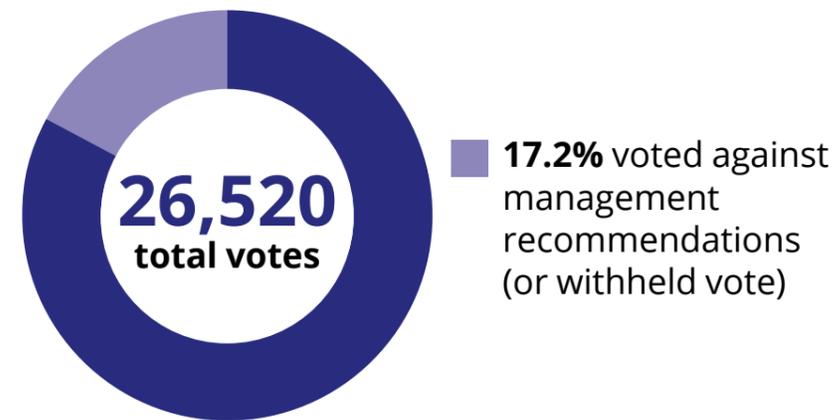
Introduction

We vote at the AGMs of the companies in which we invest, and in 2021 we voted on 99% of eligible ballots. As responsible investors, we exercise our voting rights in line with our comprehensive voting policy (see page 38) and good practices, and in a targeted way that publicly raises our stewardship concerns to boards. We use a bespoke proxy voting template and the services of ISS to inform our voting. On a monthly basis we run due diligence on our accounts to ensure that all funds are voted promptly and correctly. Our internal audit also periodically reviews the practice and procedures of our voting and screening practices. The Pension Boards' listed equities investments are all set up on segregated mandates; this enables us to exercise fully our stewardship duties in all our holdings. We do not lend our securities.

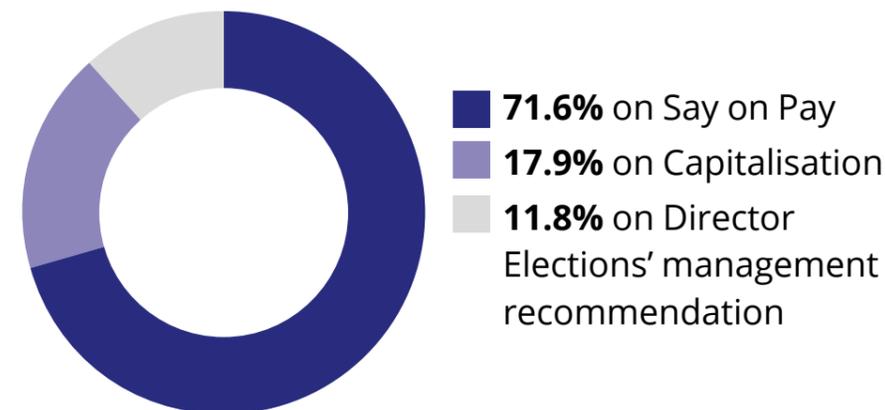
Turmoil of the Covid-19 pandemic

The continuation of the health pandemic caused by Covid-19 forced companies and shareholders to hold virtual shareholder meetings and, in some cases, to postpone annual company meetings. Companies faced unprecedented times in reporting the disruption related to Covid-19.

HEADLINE FIGURES ON TOTAL VOTING

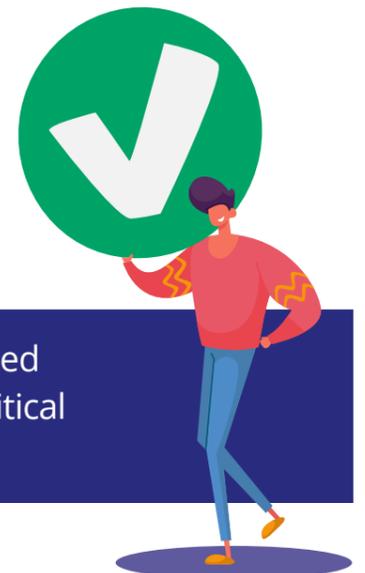


VOTING DISSENT BY ISSUE



I really like that the Pensions Board is an active voter in the companies it invests in – shaping how companies act, and influencing their moral and social responsibilities.

Cameron - scheme member



In 2021, we voted on 688 shareholder-proposed resolutions. We supported 75.9% of these resolutions, and in particular supported resolutions designed to improve shareholder rights (i.e. amend and adopt proxy access rights) and increase environmental, social and governance (ESG) disclosure (e.g. political donations, climate change and the gender pay gap).

In light of Covid-19, we focused our governance stewardship activity on safe workforce management and executive remuneration. We continued to challenge boards failing on climate change (as assessed by the TPI), tax transparency, executive pay and board composition. Our decisions to vote against management recommendations on executive pay were driven by concerns such as excessive quantum.

Our votes against management on director re-elections were driven by climate change, lack of diversity at board and executive level, and audit tenure, as well as board independence and composition. Our votes on capitalisation resolutions were mainly due to concerns over controlling shareholders' interests. During 2021 we sponsored legislative change to amend the Pensions Board's own governance, leading to a smaller and more diverse board.

Board diversity

The Pensions Board endorses, and was one of the earliest UK institutional investors to integrate, the Parker Review's recommendations, which set a framework to improve the representation of ethnic minorities on FTSE 350 company boards.

In 2021 we voted against the Chair of the Nominations Committee of FTSE 100 boards when there was no ethnic minority representation at board level. We responded to the FCA consultation "Diversity and inclusion on company boards and executive committees", expressing support for improved diversity.

In 2021 we voted against the Chair of the Nominations Committee of seven companies as result of not meeting the Parker Review recommendations: Polymetal International; Persimmon; Next; Croda International; 3i Group; JD Sports Fashion; and Ashtead Group.

CASE STUDY

MORRISONS TAKEOVER

In what turned out to be the company's final AGM as a FTSE-listed company, we voted against the discretionary executive pay award at UK food retailer Wm Morrisons Plc.

The vote was advisory, which means it is non-binding, and, although 70% of shareholders voted against it, the executives were still able to go on to take the full pay award. Subsequent to this, we wrote to the Board to seek assurances about the reported takeover terms of two separate private equity groups, specifically focusing on safeguards to protect workers' pensions and corporate culture. Morrisons recommended the bid by CD&R, and we were among the 99.2% of shareholders that voted in favour, which means that the supermarket is now privately held and no longer part of the Pensions Board portfolio.



MANAGEMENT RESOLUTIONS – DISSENT BY RESOLUTION CATEGORY

Resolution category	No. of votable resolutions	% dissent
Anti-takeover Related	252	21.0%
Capitalisation	1,582	17.9%
Directors Related	16,056	11.8%
Miscellaneous	48	20.6%
Preferred/Bondholder	51	0.0%
Reorganisation and Mergers	368	18.2%
Routine/Business	4,556	4.1%

CASE STUDY

JOHNSON & JOHNSON – SHAREHOLDER RESOLUTION – TOP HOLDING – COVID-19

Report on Government Financial Support and Access to Covid-19 Vaccines

We supported the shareholder resolution filed by Oxfam America requesting the company’s disclosure on how receipt of public financial support for development and manufacture of preventives and/ or therapeutics for Covid-19 is being, or will be, taken into account when making decisions that affect access to such products, such as setting prices. Support for this resolution concurs with our stance towards access to public health as well as promotion of public trust towards pharmaceutical companies.

Although the company commits to some best practices in pricing transparency and has pledged that up to 500 million vaccines will be administered to people in lower income countries, we believe that the company could provide better disclosure on how its pricing and other future decision will take account of the public funding received for the development of Covid-19 products. The resolution received 31.8% support from shareholders.

CASE STUDY

ALPHABET – MANAGEMENT RESOLUTION – TOP HOLDING – CORPORATE GOVERNANCE

Elect Director Ann Mather

We did not support the re-election of Ann Mather because we consider the Director “over-boarded”. That is, the director serves too many boards to be an effective director. The director serves the boards of Alphabet Inc., Bumble Inc., Dodge & Cox, Arista Networks, Netflix and Airbnb. Our vote is in line with our commitment to the International Corporate Governance Network (ICGN) Corporate Governance Principles, which states “an individual director should not hold more than three directorships of any sort, and this should be substantially less for executive directors, as well as for the board chair and committee chairs” (Principle 1.6). Although the resolution passed, we note an unusually high level of dissent (21.5%) when considering the company’s voting structure.

CASE STUDY

AMAZON.COM, INC. – SHAREHOLDER RESOLUTION – TOP HOLDING - LOBBYING

Report on Lobbying Payments and Policy

We supported the shareholder resolution filed by Newground Social Investment requesting the company’s additional disclosure of its state-level lobbying, indirect lobbying-related expenditures and related board oversight mechanisms.

We recognise that the company provides some disclosure regarding its company management response to this type of risk (i.e. 2020 US Political Engagement Policy and Statement and the Audit Committee providing oversight of the policy) and provides the list of trade associations and other organisations to which it has made donations over \$10,000. We supported the resolution because we would like further company disclosure on state-level spending on lobbying including the state agencies as required by various state and local jurisdictions. Improved lobbying transparency is consistent with our work on corporate climate lobbying. Although the resolution did not pass, it received a high level of support (34.9%).

Screening

We screen companies to avoid providing capital to, or deriving profit from, some lines of business.

Typically this covers activities or products that cause harm in society and that are deemed by our trustees and the EIAG not to be compatible with our Christian ethos. As a result, we screen and prevent our asset managers from investing in some companies, and have internal processes to manage and update this list. One of the most effective ways to capture the activities of a company that you want to exclude is to use a metric that is based upon the revenue they generate from that particular activity.

Every quarter the Board uses a data provider called MSCI to screen an investment universe of approximately 10,000 companies to identify those to be placed on our restricted list. We also rely on Sustainalytics for additional screening on indiscriminate weaponry. In addition to the thematically excluded companies identified by MSCI, the Board also operates an additional exclusion list that is based on the results of engagement and bespoke ethical research. This list of “special” excluded companies is overseen by a screening committee comprised of representatives of the National Investing Bodies of the Church of England.

Companies involved in the retail/production of indiscriminate weapons (i.e. nuclear weapons, landmines and cluster munitions) are not considered suitable for investment regardless of the size of revenues.

Companies involved in the retail/production of semi-automatic weapons are not considered suitable for investment regardless of the size of revenues.

Screen category	No. of companies restricted
Adult Entertainment	2
Adult Entertainment, Alcohol	1
Alcohol	87
Alcohol, Gambling	2
Cannabis	9
Climate Change	50
Cluster Munitions/Landmines, Defence	14
Defence	74
Firearms	8
Firearms, Defence	1
Gambling	113
Predatory Lending	19
Special Excluded	36
Tobacco	51

The list provided above was reviewed and approved in October 2021

Asset Manager Monitoring and Engagement Programme

Asset managers invest funds on our behalf in sectors where they have specialist knowledge – and they are at the heart of how we invest.

We have a rigorous selection process that includes responsible investment requirements (e.g. the ability to implement our restricted list and the capacity to understand and act on ESG considerations), and we are supported by our investment advisor’s assessment and due diligence. From 2021 we now incorporate assessments of asset managers’ diversity disclosure (see Asset Owner Diversity Charter, page 24).

We have strong and robust asset manager monitoring processes, and over the last three years have integrated an enhanced in-house (proprietary)

responsible investment assessment which complements our investment advisors’ ESG assessment (coverage: 90% managers). Our in-house assessment includes details of managers’ approach to climate change (decarbonisation commitments, portfolio carbon intensity and TPI scoring), stewardship activity (e.g. relevant memberships such as UNPRI, CA100+, and other collaborative engagements) and ESG details on underlying holdings.

In 2021 we implemented a new Responsible Investment assessment for our infrastructure managers, which increased our coverage from 34% (9/24 managers in Q1) to 70% (16/23 in Q4). **These assessments form part of the agenda of regular update meetings with managers, and results form**

part of our Investment Committee’s quarterly “Manager Monitoring” agenda item. This means that stewardship performance is presented alongside investment performance. In 2021 we met with managers 34 times (bilateral meetings), each including responsible investment.

Our regular update meetings with managers are an opportunity for us to assess their stewardship strategy. We also use these meetings to coordinate engagement, for example where we have identified a concern in a holding, and are able to compare notes and engage the company alongside our manager. Many asset owners engage managers on their proxy voting performance, but as we vote our own shares (see pages 27 and 38) we are able to use our meetings for wider stewardship collaboration.



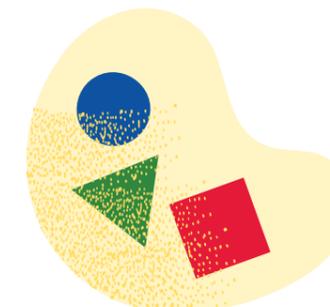
70%

Alongside our basic ESG manager assessment (which covers 90% of our managers), we increased the coverage of our enhanced responsible investment assessment from 34% of managers to 70%, and are due to reach 100% in 2022.



34

In 2021 we met with managers 34 times, each including a discussion of responsible investment.



In 2021 we joined the Asset Owner Diversity Charter as a founding signatory, and committed to incorporate diversity into our manager selection and monitoring processes.

Our resources

For an asset owner that exclusively uses external fund management, we are well resourced for responsible investment. This is because the Board believes that stewardship leads to improvements in the risk/return profile of our investments, particularly over the longer term.

It is also due to our investment beliefs that emphasise the importance of stewardship, our institutional ethos as a Church investor, and our ethical investment policies that, for example, commit us to being at the forefront of institutional investors' approach to climate change. We have a team of 5 dedicated responsible investment specialists, who in terms of structure, form an integrated part of the investment team under the co-leadership of the Chief Investment Officer and the Chief Responsible Investment Officer. The team is supported by service providers (MSCI on ESG and controversy data, ISS for proxy voting support, Mercer as investment consultants, including their fund ESG ratings), and highly experienced consultants including Chronos Sustainability (climate strategy, reporting compliance), Deborah Gilshan (climate), Ella Milburn (communications), and ESG Comms (communications).

The Board incorporates ESG matters throughout the selection and review processes for service providers and consultants, and includes, where relevant, clear minimum criteria that we expect to be met for candidates to be considered and contracts to be renewed. This applies across the Board's activities. For example, ESG and stewardship criteria were a core part of the selection process for a "Buy-In" arrangement for one of our schemes that began in 2021.



Engagement collaborations

We work with others to achieve greater impact in our engagement. In 2021, our partnerships included:

30% Club We are a member of the 30% Club's UK Investor Group. This focuses on proxy voting and engagement in support of the Hampton-Alexander and Parker reviews' recommendations on gender and ethnic diversity, seeking 30% representation and at least one director of colour on company boards.

Access to Nutrition Initiative (ATNI) The Board is a signatory of the ATNI, which engages with the food industry to tackle undernutrition, obesity and diet-related chronic diseases at local and global levels.

Church Investors Group (CIG) We are a member (and board member) of the CIG, a coalition of 70 faith-based institutions that share best practice on investment policies and engagement based on Christian ethical principles.

Climate Action 100+ (CA100+) The largest engagement coalition of investors ever assembled coordinates efforts to mitigate transition risk at the world's largest and highest carbon-emitting companies. The Board leads on engagement with Shell (formerly Royal Dutch Shell) alongside Robeco, and co-chairs the mining and steel working group alongside UBS.

Corporate Human Rights Benchmark (CHRB) The Board formalised our support for this, and integrates its assessments into our internal monitoring processes.

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

Find it, Fix it, Prevent it The Board is a signatory of this initiative, coordinated by CCLA, seeking to address modern slavery in our society. The Board also participates in a modern slavery engagement group coordinated by Rathbones.

Institutional Investors Group on Climate Change (IIGCC) is a European coalition of over 370 investors across 22 countries (€50trn in assets) acting to address climate change. We sit on IIGCC's board, co-chair IIGCC's Paris Aligned Investment Initiative, lead on value chain engagement and co-lead a workstream on corporate climate lobbying and the IIGCC Corporate Programme.

Investor Mining and Tailings Safety Initiative (IMTSI) The Board leads the IMTSI with the Council on Ethics of the Swedish Public Pension Funds (until December 2021, subsequently Mr John Howchin). This coalition of over 110 investors with more than US\$23trn AUM was formed in 2019 to address tailings storage risks in the wake of the Brumadinho disaster that killed 270 people.

Powering Past Coal Alliance (PPCA) We are a member of the PPCA, which works to advance the transition from unabated coal power generation to clean energy.

UN-backed Principles for Responsible Investment (PRI) We are signatory to the world's largest coalition of responsible investors, working to promote sustainable investment through the incorporation of ESG insights.

Transition Pathway Initiative (TPI) The Board co-founded the TPI and continues to co-chair this US\$40trn AUM investor tool that assesses 479 publicly listed companies on transition risk, both in relation to management quality and future carbon performance.

Workforce Disclosure Initiative (WDI) We are signatory to the WDI, which in 2021 encouraged a record 179 global companies to complete a comprehensive survey on their workforce (both direct operations and supply chains), including freedom of association, human rights due diligence, diversity, and pay ratios.

IAHR Engagement Group The Board joined this initiative in 2020. The Group is focused on coordinating engagement with companies related to the human rights crisis in the Xinjiang Uyghur Autonomous Region in China.

Future priorities

- **Establish**, together with the UN, the independent Global Tailings Institute to support the implementation of the Global Industry Standard on tailings management.
- **Launch** Mining 2030 to develop an investor agenda for change across the mining sector, to address eight issues that strategically challenge the mining sector and its social licence. Through a series of roundtables identify where best practice exists, if global standards exist or if they need to be created and the interventions investors should make to address each issue. This is a major undertaking that will draw from the lessons that the Board have learnt in leading engagement following the Brumadinho disaster.
- **Review** our allocation to credit, including climate transition opportunities in emerging economies. The Board will be convening a roundtable of UK Pension Funds under the UK Presidency of the COP with the UK Pensions Minister to explore how pension funds can support the transition in emerging economies such as South Africa.
- **Launch** a Global Standard on Corporate Climate Lobbying and lead global engagement on alignment to the Standard.
- **Launch** the first ever framework to assess government sovereign bonds through the ASCOR Project.
- **Advocate** for a major re-focus through CA100+ to address both the demand and supply side of the energy transition. If you reshape demand you will reshape those that supply it. Having led the creation of the Net Zero Standard for the oil and gas sector (supply side), we will focus our future engagement efforts on the demand side, specifically the auto and steel sectors, as well as engaging on the minerals needed from the mining sector for batteries.
- **Undertake** a deep dive into systemic risk and “systemic stewardship”, including the implications for our strategy.
- **Develop** an engagement programme following the publication of advice from our Ethical Investment Advisory Group on Big Tech.
- **Chair** the Global Paris Aligned Investor Initiative together with Dutch fund APG to oversee the development of the Net Zero Investment Framework by the world’s regional investor networks to ensure we continue to evolve best practice and standardisation of net zero approaches by pension funds.

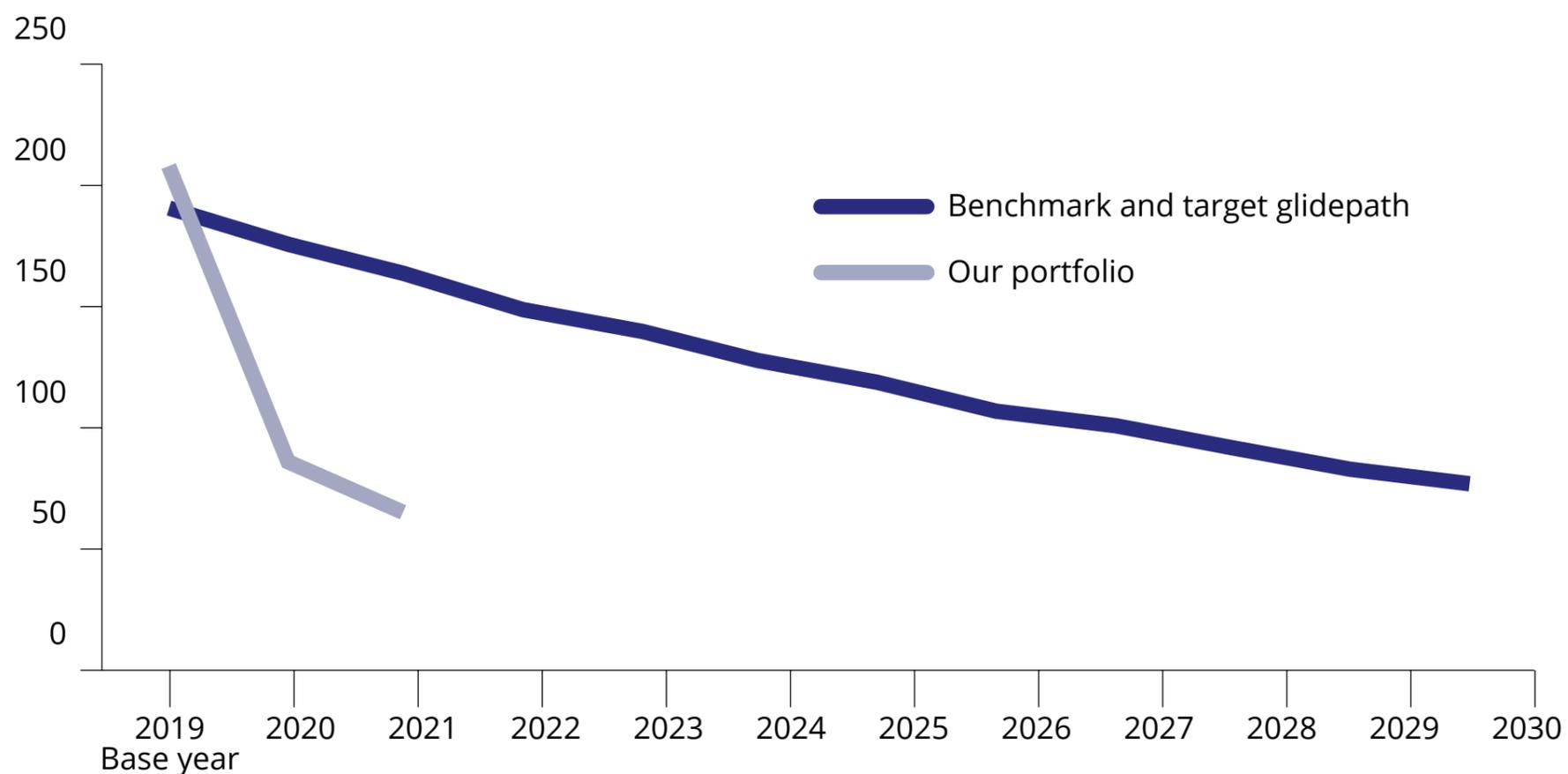


Appendices

Progress on climate change targets

Public equity

Our public equity portfolio achieved a weighted carbon intensity of 74 tonnes of CO₂ per million pounds of revenue. This further reduction is significant, well ahead of our 7% year-on-year target trajectory, and is close to our net zero aligned target for 2032.



In due course, we may find that the carbon intensity increases, as there will be a period during which higher emitting companies publish credible plans to decarbonise (and we un-restrict or adjust our investment weightings), but they are yet to implement fully those plans. In this scenario a portfolio would have strong transition credentials, but face a temporary rise in carbon intensity. This shows one of the limits of single climate measures, and the importance of investing for the transition, alongside broad-portfolio level targets.

Please see Appendix 2 for the Board’s TCFD-aligned disclosures. As our largest fund is an open defined benefit scheme, our investment portfolio will increase in size over time, so our absolute carbon footprint may increase, even while we implement robust climate controls and reduce our investments’ carbon intensity. Whether the increase in size of our portfolio results in an increase in carbon emissions over time will depend on a range of wider conditions, including the growth of the global economy, availability of alternatives (which we are engaging to promote), the implementation of sectoral decarbonisation pathways, and the viability of offsets.

Infrastructure

This year saw the development of our enhanced manager monitoring within the infrastructure asset class. A new due diligence questionnaire was developed and completed by all of our infrastructure managers, and forms the basis of ongoing monitoring and engagement. The managers’ climate and net zero approach was part of this process.

Private equity

We have three private equity investments. Two were chosen for their “impact” characteristics. The third is managed by Cambridge Associates on a discretionary basis, and is invested across the private equity ecosystem, from venture capital to buy-out funds. Cambridge have developed a bespoke ESG scoring system for us, and our in-house team is provided the opportunity to comment before any fund allocation is made. This year, the estimated total carbon emissions of our Cambridge Associates allocation was 394 (tCO₂e), which was 14.3 tonnes per million dollars invested (tCO₂e/\$M invested). This compares to an MSCI ACWI equivalent investment benchmark of 78.4 (tCO₂e/\$M invested).

Real estate

Our real estate portfolio is managed by our asset manager CBRE as a “fund of funds”, as of 31 December 2021, approximately 40% allocated to the UK, and 60% to the Global Alpha fund. This level of intermediation means that our real estate holdings would be exempt from most investor net zero frameworks.

We are, however, able to report on the net zero commitment status of our investments across 19

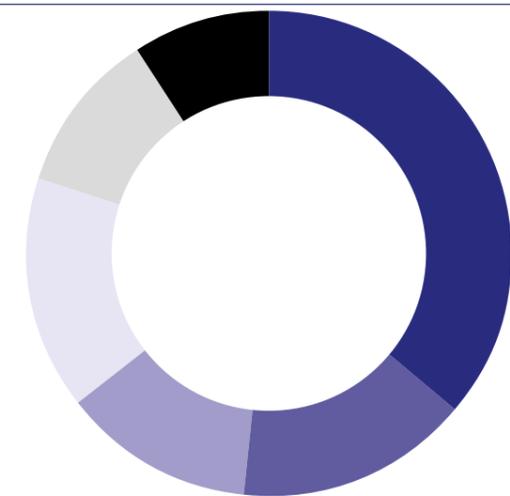
underlying funds in the UK allocation, and expect to do so for the Global Alpha fund in due course. Only 10% of our UK property investments do not yet have a net zero target. Alongside monitoring the underlying commitment to net zero, CBRE undertake significant stewardship analysis of the underlying funds, including ESG assessments and physical risk modelling. During 2022, CBRE will begin collecting emissions data directly from the underlying funds, which we expect to allow us to report carbon emissions intensity and relevant benchmarks for this asset class.

VALUE OF OUR INFRASTRUCTURE ALLOCATION



- **25%** of the value of our infrastructure allocation is invested with net zero committed managers.
- A further **36%** is invested with managers with partial or limited net zero commitments (e.g. applying only to new funds)
- **37%** is invested with managers that have not yet made net zero commitments

UK REAL ESTATE ALLOCATION NET ZERO COMMITMENTS



- **40%** by 2050
- **17.3%** by 2040
- **13.6%** by 2030
- **17.4%** by 2025
- **11.7%** wind down (target not applicable)
- **10%** no target

Our significant votes

Priority area	Our voting policy	2021 Votes	Companies
Climate Change Lobbying	ABSTAIN on the annual report and accounts for CA100+ companies where there is a lack of disclosure of lobbying activities/trade association membership.	2	Volvo, Grupo México
Climate Change TPI framework & management	AGAINST the re-election of the board Chair where the company is not at least Level 2 (i.e. companies assessed at level 0 and 1) of TPI Framework.	3	Tenaris, Reliance Steel & Aluminium Co., Iino Kaiun Kaisha Ltd.
	AGAINST the re-election of the board Chair where the company is included in the CA100+ programme, is in the electrical utility or oil and gas or diversified mining sector, and does not have a TPI Performance Pathway that is either aligned with or below the NDC (Paris Agreement) pathway.	N/A	
Diversity Gender	ABSTAIN on the annual report and accounts where there is no disclosure on gender diversity at executive committee level.	N/A	
	AGAINST the re-election of Chair of the Nomination Committee due to inadequate sub-board female representation.	32	3i Group Plc, Antofagasta Plc, Ashtead Group Plc, Associated British Foods Plc, Barclays Plc, Bellway Plc, Berkeley Group Holdings Plc, BT Group Plc, Coca-Cola HBC AG, Croda International Plc, Experian Plc, Ferguson Plc, Hikma Pharmaceuticals Plc, HSBC Holdings Plc, IMI Plc, Intermediate Capital Group Plc, Intertek Group Plc, Kingfisher Plc, Mondi Plc, Morgan Advanced Materials Plc, Network International Holdings Plc, Ocado Group Plc, Persimmon Plc, Polymetal International Plc, Reckitt Benckiser Group Plc, Rentokil Initial Plc, Smiths Group Plc, Spectris Plc, Spirax-Sarco Engineering Plc, Spirent Communications Plc, St. James's Place Plc, Wizz Air Holdings Plc
	AGAINST the re-election of the Chair of the Nomination Committee where the company is a FTSE 350 constituent; the composition of the board does not include at least 40% gender diversity; the Chair has not changed since the previous AGM.	36	Antofagasta Plc, Ashtead Group Plc, Associated British Foods Plc, AstraZeneca Plc, Barclays Plc, Barratt Developments Plc, Bellway Plc, Berkeley Group Holdings Plc, BT Group Plc, Coca-Cola HBC AG, ConvaTec Group Plc, Croda International Plc, Dixons Carphone Plc, Drax Group Plc, Hikma Pharmaceuticals Plc, Hiscox Ltd, HSBC Holdings Plc, IMI Plc, JD Sports Fashion Plc, Johnson Matthey Plc, Legal & General Group Plc, NatWest Group Plc, Network International Holdings Plc, Persimmon Plc, Polymetal International Plc, Rentokil Initial Plc, SEGRO Plc, Smith & Nephew Plc, Smurfit Kappa Group Plc, Spectris Plc, Spirent Communications Plc, Standard Chartered Plc, Tesco Plc, United Utilities Group Plc, Whitbread Plc, Wm Morrison Supermarkets Plc
	AGAINST the re-election of the Chair of the Nomination Committee where the company is an SP 500, TSX 60, FTSE Developed Europe (excl.UK), SP ASX 200 or an SP NZX 50 constituent; the board does not contain at least two female directors; the Chair has not changed since the previous AGM.	6	CNH Industrial NV, Kuehne + Nagel International AG, Motorola Solutions Inc., Garmin Ltd., Monster Beverage Corporation, Uniti Group Limited
	AGAINST the re-election of the Chair of the Nomination Committee in other jurisdictions where the board does not contain at least two female directors; the Chair has not changed since the previous AGM.	11	DB Financial Investment Co. Ltd., National HealthCare Corporation, CSPC Pharmaceutical Group Limited, Sunny Optical Technology (Group) Company Limited, The Hong Kong and China Gas Company Limited, Truly International Holdings Limited, Zhongsheng Group Holdings Limited, inTEST Corporation, Jupiter Mines Limited, Wynnstay Group Plc
Diversity Ethnic representation	AGAINST where the following combination of factors exists: the company is a FTSE 100 or S&P 100 constituent; the board does not include at least one member from a UK minority ethnic group; the identity of the Chair of the Nomination Committee has not changed since the previous AGM.	6	Polymetal International Plc, Persimmon Plc, Next Plc, Croda International Plc, 3i Group Plc, JD Sports Fashion Plc
Modern Slavery	ABSTAIN on the annual report and accounts where the company's modern slavery statement is in the lower quartile of either KnowTheChain or The Business and Human Rights Resource Centre's Ranking of FTSE 100.	2	HSBC Holdings Plc, JD Sports Fashion Plc
Tax Transparency	AGAINST re-election of the board Chair (FTSE 350 and Russell top 50) when companies show no evidence of corporate tax management.	16	Amazon.com Inc., AT&T Inc., Bank of America Corporation, Bristol-Myers Squibb Company, Comcast Corporation, JPMorgan Chase & Co., Merck & Co. Inc., NextEra Energy Inc., PepsiCo Inc., Pfizer Inc., Salesforce.com inc., The Home Depot Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc., Verizon Communications Inc., Walmart Inc.
Mining & Extractives	AGAINST re-election of Chair of the board where a company is not responsive to engagement.	N/A	
Living Wage	ABSTAIN on the Remuneration Report where companies are not Living Wage accredited.	5	Hikma Pharmaceuticals Plc, Prudential Plc, BT Group Plc, Vodafone Group Plc, Intermediate Capital Group Plc

TCFD

	TCFD ASSET OWNER Recommended Disclosures	Church of England Pensions Board Disclosure
Governance	<p>a) Describe the board's oversight of climate-related risks and opportunities.</p> <p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>The Board of Trustees has overall responsibility for responsible investment. The Chief Executive Officer, Chief Investment Officer, and Chief Responsible Investment Officer work on responsible investment issues, advising the Board and its Investment Committee with standing agenda items at meetings, and regularly reviewing the Board's approach and implementation of relevant strategies. The Ethical Investment Advisory Group (EIAG) provides ethical investment advice to the Board and Investment Committee. External advisors are consulted and responsible investment commitments are regularly monitored by expert in-house staff. Climate change is recognised in our Schemes' Statement of Investment Principles and Beliefs as "a major financial, social, and ethical risk" for trustees and executives to consider, and is the topic of a Board-approved dedicated Ethical Investment Policy. Our Climate Change Policy is available here: CofE.io/EIAGPolicies</p>
Strategy	<p>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.</p> <p>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.</p> <p>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>The Church of England Pensions Board has undertaken extensive work to understand climate-related risks and opportunities. Overall the Board is committed to align its portfolio with the Paris Agreement objective of a "well below 2°C" global outcome, and in January 2020 made a commitment to be net zero by 2050 (through membership of the Net-Zero Asset Owner Alliance).</p> <p>Climate change risks and opportunities are embedded within the investment strategy and decision-making processes. The Board undertakes regular climate-change scenario analysis (every two years) better to understand low-carbon transition risks and physical risks posed by climate change. The Board uses a range of scenarios (including orderly, abrupt and no-transition scenarios), models and methodologies to understand climate-related risks and opportunities over different time periods. The Board's Investment Committee has also discussed the limitations of stress testing, scenario modelling and climate value at risk analysis, based as they are on considering future changes to a snapshot of current portfolio company information. To complement these analyses, the Board also uses TPI climate performance analysis that incorporates companies' own forward-looking decarbonisation plans. The Board has considered Implied Temperature Rise (ITR) metrics, and in 2021 provided submissions to the TCFD and DWP cautioning their use as a portfolio assessment tool at this time. Our most recent analysis identified that we could expect our portfolio's strategic asset allocation to benefit under a 2°C scenario, achieving a +3.4% return benefit on a cumulative basis by 2030 (Mercer analysis, 2020), negligible impact under a 3°C scenario and negative in a 4°C scenario. The most recent stress testing analysis of the Board's portfolio (as opposed to the SAA) indicated that even under an "immediate 1.5 degree" scenario, we should expect a modest positive uplift in valuations (approx. 1%), relative to reductions in valuation for our baseline (2019) and benchmark portfolios of -4 to -5% under the same scenarios (Vivid Economics analysis 2020).</p> <p>The Board has recognised the need for the wider investment community to have a common framework to deliver on net zero commitments and therefore set up and co-chairs the development of a Net Zero Investment Framework under the Institutional Investors Group on Climate Change (IIGCC). This framework, launched in 2021, is industry-leading and does not just consider different scenarios, but different ways to address these scenarios in strategic asset allocation, investor stewardship, and across asset classes (www.parisalignedinvestment.org).</p>
Risk Management	<p>a) Describe the organisation's processes for identifying and assessing climate-related risks.</p> <p>b) Describe the organisation's processes for managing climate-related risks.</p> <p>c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.</p>	<p>Monitoring is focused on climate-change scenario analysis, monitoring of emissions risks through carbon footprinting and carbon intensity metrics, and monitoring exposure to carbon assets (e.g. fossil fuel reserves). The Board also monitors the climate commitments of our asset managers, across asset classes (see pages 36 and 37), and the topic forms part of our manager monitoring programme (page 31).</p> <p>The climate-related "management quality" and "carbon performance" assessments of companies are also tracked, using the TPI data, to inform engagement, voting and interactions with investment managers. This has led to the development of, and investments in, the FTSE TPI Climate Transition Index that weights companies based on Paris Alignment criteria and the amendment of one investment mandate to address above-benchmark weighted average carbon intensity. Finally, stewardship activities aim to bring about decarbonisation and improve climate change disclosure, directly and through collaboration with other investors, e.g. through our involvement with the TPI, CA100+ and the IIGCC.</p>

	TCFD ASSET OWNER Recommended Disclosures	Church of England Pensions Board Disclosure																
Metrics and Targets	<p>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</p> <p>b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p> <p>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</p>	<p>The Church of England Pensions Board monitors the carbon footprint of its investments over time, to reduce portfolio emissions, and undertakes regular scenario analysis relative to appropriate benchmarks and climate models. We monitor TPI assessments (www.transitionpathwayinitiative.org/sectors) and have developed specific targets for the 15 sectors covered by TPI. These targets inform our proxy voting (companies should have a management score of at least 3), engagement, and investment decision-making (through the FTSE TPI Climate Transition Index, the Board tilts investments on the basis of TPI's management quality and carbon performance assessment). Companies assessed by TPI as not aligned or not disclosing are excluded from the index (receive a "0" weighting). The Board has also committed to be "Net Zero by 2050, or earlier", and has partnered with other investors to develop appropriate frameworks and methodologies across asset classes. As a result of this work, the Board has adopted the following targets:</p> <p>1) Our public equity holdings will have carbon performance (as assessed by TPI, using its sector-specific decarbonisation pathways and benchmarks drawn from the International Energy Agency), in line with the "Below 2°C" model by 2023. In making progress towards this target, we engaged 21 companies in 2020 and divested from 9 of them. In 2021 we engaged 20 companies that made changes and stayed off our restricted list, and restricted investment in 28. This engagement was conducted in collaboration with the other Church of England National Investing Bodies. General Synod has committed the Church of England to assess the target of Net Zero by 2030 for operational emissions, more details of which are available at CofE.io/ViewOnClimateChange</p> <p>2) Our public equity portfolio will fall below a transition curve based on a year-on-year improvement of at least 7% relative weighted average carbon intensity (tCO₂e/\$m revenue, beginning with the 2019 benchmark (MSCI ACWI) emissions). This equates to a reduction of 35% by 2025 (relative to the 2019 benchmark), and 55% by 2040. Targets for other asset classes are under development, and will be informed by the IIGCC's Net Zero Investment Framework. The weighted average carbon intensity of the Board's equity portfolio as of 31 December 2021 was 74.3 tCO₂e/\$m sales (using MSCI's portfolio snapshot tool). This is 54% under our target pathway.</p> <p>Portfolio emissions</p> <table border="1" data-bbox="1151 877 2332 1140"> <thead> <tr> <th></th> <th>(Weighted average carbon intensity: tCO₂e/\$m revenue)</th> <th>Target (Benchmark +7% year-on-year reduction)</th> <th>% relative to target</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>74.3</td> <td>160.8</td> <td>-54%</td> </tr> <tr> <td>2020</td> <td>91.6</td> <td>173.9</td> <td>-48%</td> </tr> <tr> <td>2019</td> <td>203.5</td> <td>187</td> <td>+8.5%</td> </tr> </tbody> </table> <p>The Board is also tracking a number of other relevant metrics, including:</p> <ul style="list-style-type: none"> - The number of our managers with net zero commitments, the timeframe of those commitments and their scope (see pages 36 and 37). - Public equity "weighted average carbon footprint", i.e. the Scope 1 and 2 carbon equivalent emissions of our portfolio companies, measured in metric tonnes and proportionate to the amount we have invested in them is as follows: FY2021: 108,599 tCO₂eq (76.6 tCO₂eq/£million invested, with 94% data coverage by amount invested) FY2020: 111,090 tCO₂eq (77.1 tCO₂eq/£million invested, with 89% data coverage by amount invested) FY2019: 240,134 tCO₂eq (170 tCO₂eq/£million invested, with 92% data coverage by amount invested) 		(Weighted average carbon intensity: tCO ₂ e/\$m revenue)	Target (Benchmark +7% year-on-year reduction)	% relative to target	2021	74.3	160.8	-54%	2020	91.6	173.9	-48%	2019	203.5	187	+8.5%
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Financial Reporting Council (FRC) Stewardship Code 2020

The Board was pleased to be among the first 23 approved asset owner signatories to the Stewardship Code.

Principle 1 Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

The Board's purpose, beliefs, culture and strategy are interconnected and outlined in a number of documents, including Our Approach (page 8). The Board's duty is to provide retirement housing and pensions, set by the Church of England, for our 41,000 beneficiaries who have served or worked for the Church. The Board, as a Church of England institution, seeks to invest in a way that is consistent with the Church's ethics and ethos, guided by our EIAG and General Synod. The way we invest is outlined in the Fund Profile (page 4), and this Stewardship Report document should be read as an example of how the Board's purpose and investment beliefs have guided our investment strategy (e.g. our work with the TPI and its integration into stewardship activities) and the stewardship of investments.

The third-party assessments of our climate strategy outlined in our TCFD section (Appendix 2) give us confidence that we have been effective in serving the best interests of our beneficiaries through positive returns and reducing risks. Previous awards received from the UN-backed Principles for Responsible Investment on Stewardship and for ESG Integration, and our most recent PRI assessment, are additional external acknowledgment of the approach the Board has taken.

Further details are available here:

- The Board's Investment Principles and Beliefs: [CofE.io/InvestmentPrinciples](https://www.cofe.io/InvestmentPrinciples)
- Our Annual Review: [CofE.io/PBReview2020](https://www.cofe.io/PBReview2020)
- Our Stewardship Implementation Framework, which details how we oversee and set stewardship expectations of asset managers: [CofE.io/PBStewardshipImplementation](https://www.cofe.io/PBStewardshipImplementation). Our Schemes' Investment Principles and Beliefs were reviewed by the Investment Committee in 2021 and the Stewardship Framework was approved by the Investment Committee in 2019.

Principle 2 Signatories' governance, resources and incentives support stewardship.

Consistent with our investment beliefs, the Board integrates ethical and responsible investment.

The CIO and CRIO co-lead the investment team of 10.5 full-time equivalent (FTE) staff, under one budget, and report to the CEO. The Board and its Investment Committee are supported in their work on stewardship by the Executive, our investment consultants and advice from the Church of England's EIAG. The Board's Investment Committee regularly conducts "deep dive" sessions that incorporate training, and stewardship/ethics and engagement are a standing

agenda item. Further detail on the processes that enable the Board to integrate stewardship are provided in the Board's Stewardship Implementation Framework (approved by the Investment Committee in 2019 and available at [CofE.io/PBStewardshipImplementation](https://www.cofe.io/PBStewardshipImplementation)), and the Board's Annual Review ([CofE.io/PBReview2020](https://www.cofe.io/PBReview2020)) includes reporting against our objectives to "Demonstrate leadership in ethical and responsible investment" and "Model good governance and stewardship". This year's report includes a section on resourcing, and further detail on the systems and processes we have in place for asset manager monitoring and engagement (pages 24, 31, 32, 36 and 37).

Disclosures on the Board's diversity, pay and so on are made in our Annual Report, available at [CofE.io/PBFinancialStatements](https://www.cofe.io/PBFinancialStatements). Staff undertake formal performance reviews every 6 months, and (re Stewardship Code no. 2.6) the Board does not offer variable incentive payments. In order to act effectively on our investment beliefs around stewardship, the investment team comprises professionals with both investment and stewardship expertise (see the table on page 44). On stewardship, members of the team have extensive experience in leadership and responsible investment roles, relevant graduate, postgraduate and professional qualifications, and undertake continuing professional development (e.g. Investment Management Certificate qualifications).

Together with the other Church of England National Investing Bodies, we recently re-constituted the EIAG after a thorough review. The changes made in 2018 include revised Terms of Reference, increased numbers of independent members, and a new Appointments Committee with a remit to oversee appointments, diversity and good governance.

Alongside our investment consultants Mercer, the Board uses third-party service providers MSCI (ESG data), Sustainalytics (ESG data), ISS (proxy voting implementation) and Refinitiv EIKON (investment and ESG data), and draws on the resources and expertise of a number of organisations that we work with, lead, or are members of, including the PRI, the TPI, the IIGCC, the Net-Zero Asset Owner Alliance and the other groups and coalitions outlined in our section on "Engagement collaborations", where we also detail the nature of our involvement in the collaboration (page 33). Further details on how these providers' data are used are provided on pages 14, 27, 30 and 32 (ESG data to support engagement), Voting (pages 27, 28, 29 and 38) and Screening (page 30).

Principle 3 Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

The Board has published a Code of Conduct and Conflicts of Interest Policy here (www.churchofengland.org/sites/default/files/2022-03/CEPB%20Code%20of%20Conduct.pdf), which applies to staff, trustees and those co-opted to serve on committees. The Code requires members to observe the highest standards of impartiality, integrity and objectivity in relation to the business and management of the Church of England Pensions Board, and follows the Seven Principles of

Public Life set out by the Committee on Standards in Public Life. The Code describes different kinds of conflict, including conflicts specific to the Board's stewardship activities. These conflicts may be direct and indirect, pecuniary and non-pecuniary. Sections 12–20 of our Code of Conduct outline the Board's policy and approach to handling and addressing conflicts of interest, including the registration of interests, declaration of interests, withdrawal from meetings and lobbying other members.

The EIAG also operates a Code of Conduct that includes provisions for conflicts of interest. In 2021, one potential conflict of interest was identified during our engagement programme development phase: a co-opted member of the Board's housing committee is a director at a housing provider, and during the year we launched our *Coming Home* engagement track focusing on housing providers (page 25). After internal escalation, no actual conflict was evident, and no further steps were required beyond continued routine application of the Code of Conduct as the Housing Committee plays no role in stewardship decision-making.

Other potential conflicts or areas of risk might arise – e.g. if a committee member were to have a relevant relationship with an investment manager being considered for appointment, a company subject to engagement, or an advisory or consultancy tendering for work. These would be addressed following the Board's Code of Conduct, through registering and declaring actual or potential conflicts of interest, and withdrawal from meetings where appropriate. One area of broader interest is potential misalignment between our approach to stewardship and the stewardship policies of our asset managers. In order to address this, we incorporate stewardship in our selection and appointment process, seek segregated mandates where possible, conduct all proxy voting in-house and have incorporated stewardship into our regular asset manager monitoring and assessment. Further detail is available in our Stewardship Implementation Framework: [CofE.io/PBStewardshipImplementation](https://www.cofe.io/PBStewardshipImplementation)

Principle 4 Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

The Board's two "Impact Engagement" stewardship priorities address market-wide and systemic risks. These priority areas were identified, approved and monitored by the Investment Committee, with support from the EIAG. The Board's approach to stewardship and investment decision-making in light of these risks, and our extensive collaborations, are detailed above in these sections: Climate Change on page 12 and Mining on page 22. The systemic risk of climate change is articulated in our Statement of Investment Principles and Beliefs; our Policy on Environment and Climate Change (available at [CofE.io/ViewOnClimateChange](https://www.cofe.io/ViewOnClimateChange)). The reporting on pages 12, 13, 14, 39 and 40 demonstrate how the development of TPI as a free open-source tool, the development of and our allocation to the FTSE TPI Climate Transition Index, co-chairing the IIGCC's Net Zero Investment Framework, developing corporate lobbying standards and our collaborative engagement activities, enable other investors (and the wider social and economic ecosystem) to manage climate

change risks and opportunities. We view a range of mining-related risks as systemically important. For example, tailings storage facilities pose a systemic risk due to their prevalence in the mining industry, the severe impacts if they fail, and the mining industry's prevalence in supply chains globally. Indigenous rights, where compromised, pose threats to miners' social licence to operate. This sector is particularly important to support the low-carbon transition and minerals needed.

Our work, together with the UN Environment Programme and industry, to develop and drive the adoption of the Global Industry Standard on Tailings Management (see pages 22), supports improved resilience in the mining industry and supply chains.

The Global Tailings Portal provides investors (and others, as it is in the public domain) with a new tool to understand and manage risks from mine waste. The Board's Investment Committee has considered Covid-19-related risks throughout the year, and undertook Covid-19-specific analysis, discussions and reviews with managers. In 2021 the Board also worked with the Ethical Investment Advisory Group to identify and assess systemic risks related to investments in big tech companies.

Principle 5 Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The Board's suite of ethical investment policies and processes are reviewed on a regular and ongoing basis by the in-house team, the Investment Committee, the Board, and the Ethical Investment Advisory Group, and are subject to internal audit processes. The Board most recently conducted audits on our climate change approach and on ethical compliance in 2020, receiving the highest levels of assurance: "substantial" and "full". Some minor process improvements were identified and implemented, including policy document formatting.

The EIAG (which advises the Board on ethical investment matters in a way that is consistent with the Anglican ethos of the Board) operates under Terms of Reference that include a periodic "stock take" review of ethical investment and the suite of ethical investment policies. The EIAG conducted a horizon scan review in 2021, and collaborated with the Board on a thematic review of our complete policy suite. In 2021 the EIAG met four times (and additionally at working group level) and received a report from the Board on its stewardship activities on each occasion. In 2021 the Investment Committee undertook a "deep dive" review of our proxy voting policy, adding an escalation of our strategy in relation to mining companies' adoption of the Global Industry Standard on Tailings Management.

The Board undertakes both internal and external checks on its Stewardship Report in order to verify that the reporting is fair, balanced and understandable. Externally the Board uses consultants to check that the report meets our needs in relation to the Stewardship Code and TCFD. This approach ensures that there are at least two levels of checks beyond the drafting team. In 2021 we held a member focus group to receive feedback on whether the report is balanced and understandable. Pages 6 and 7 were created in response to feedback received. We use feedback from the FRC Stewardship Code team as a reference for the standard of our reporting. The Stewardship Report is ultimately approved by the CEO, Chair of the Investment Committee and Chair of the Board.

Principle 6 Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

The Board has 41,000 members across three schemes. See the Fund Profile section (page 4) for a description of the Board's investment approach, a breakdown of our assets under management (by asset class and geography), the structure of various schemes, and the Board's Annual Review (www.churchofengland.org/cepb) for a description of the Board's three schemes. Following our Statement of Investment Principles and Beliefs (CofE.io/InvestmentPrinciples), 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 Board seeks ethical investment advice from the EIAG that is informed by Anglican and Christian theology, and the Board evaluates and acts on this advice in the adoption of ethical investment policies. The EIAG provides regular public reporting on its advice and the Board's ethical investment policies (see www.churchofengland.org/eiag/policies), and the Board regularly communicates directly with beneficiaries.

In 2021 the Board convened a member workshop to provide feedback and insight into members' views on our Stewardship Report 2020. We believe a dedicated workshop to be more effective than a questionnaire in eliciting high-quality feedback, though the selection bias is likely to be stronger (as more interested members – vs. the average member – are likely to offer their time). Participation and engagement with the workshop was good, and we plan broader engagement in 2022 in order to complement the depth of workshops. Notable comments received included positive feedback on voting (see page 27 for a direct quote from the workshop), an encouragement to provide a summary and key facts (see pages 6 and 7 which are a new section this year), and an encouragement to include the breadth of topics covered. In 2022 the Board will be hosting its first Member Meeting, which will provide an opportunity for break-out sessions on stewardship, live question and answers, and an invitation for members to provide additional feedback.

This report is the second annual standalone Stewardship Report, where previously reporting was contained within the Annual Report.

- We have a dedicated section in our Annual Report and a shorter Annual Review for beneficiaries. (The Board's Annual Review is available at www.churchofengland.org/cepb)
- We publish our annual Stewardship Report (this document) online, and will be publishing Implementation Statements for each of our schemes with their annual reports.
- We have a dedicated section on our website about our major engagements.
- We have a communications capacity which targets specific media that our beneficiaries read.
- We deliver reports to the General Synod (equivalent of a parliament) of the Church of England as well as reports to bishops on progress.
- We have ensured that the TPI tool remains free and publicly available so that any trustee or beneficiary can access its analysis and hold us to account on engagement progress on climate change.
- We convene an annual member feedback workshop, inviting all members to participate.
- We publish all our proxy voting records, including the rationale for votes where we do not support management.

Our asset managers follow our investment policies, and stewardship policies where applicable. The Board conducts engagement directly with issuers, and vote our own shares internally (rather than delegating this to managers), so while we have detailed expectations of our managers, our stewardship policies primarily apply to our own activities, rather than those of our managers.

Principle 7 Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Stewardship is integrated throughout the Board's structures, processes and decision-making. It is integrated at the Board committee level and among executive leadership (the investment team is co-led by the CIO and CRIO), operationally through the close collaboration that investment and stewardship specialists have on manager monitoring, manager selection, and in, for example, establishing our approach to individual proxy votes and shareholder resolutions. A good case study of this integration in practice is our work with FTSE Russell to develop the FTSE TPI Climate Transition Index, where we collaborated to integrate climate considerations into the rules and tilts of the index. Our approach to ESG, stewardship integration and manager monitoring applies across all funds, asset classes, and geographies, including all manager selection decisions. All managers are provided with either our list of restricted issuers (see Screening) or the categories of restricted investment (for alternative asset managers), and all asset managers are subject to our internal enhanced ESG assessment and engagement programme (see pages 24, 31, 32, 36 and 37).

There are some differences across asset classes: in public equity our engagement with underlying holdings is most often direct, and there is no difference in our engagement, proxy voting, or escalation strategies across funds or geographies. In alternative asset classes our stewardship is primarily focused on and mediated by our asset managers, and our approach to manager monitoring is uniform across geographies (see page 31). At the policy level, the Board's Stewardship Implementation Framework (CofE.io/PBStewardshipImplementation) provides further detail on the way we integrate stewardship and investment activities, including through manager appointment, engagement and monitoring, and termination. In asset classes with limited ESG data, the Board's stewardship activity focuses on our relationship with, and assessment of, the asset manager.

In the reporting period we ensured that a tender for a "buy-in" opportunity for a section of one of our schemes included ESG and stewardship considerations, including a gap analysis between the shortlisted insurers' stewardship policies and our own. The gap analysis used desk-based research and interviews with the insurers. Good ESG/Stewardship performance was a "condition precedent". It was reviewed by the trustee working group, and material poor ESG/Stewardship performance would have led to an unsuccessful tender. Our Pooled Funds policy was used as a red flag assessment.

See the text under Principle 2 above, and Our Approach (page 8), Climate Change (page 12), Mining (page 22), Screening (page 30) and Voting (page 27).

Principle 8 Signatories monitor and hold to account managers and/or service providers.

Stewardship is a standing agenda item for manager update meetings, during which typically there is discussion of both the managers' stewardship approach and particular holdings. Stewardship considerations and metrics (including

climate change-related metrics) are included in the quarterly manager monitoring report considered by the Investment Committee. More detail is provided in the Asset Manager Monitoring section (page 31 but see also pages 24, 32, 36 and 37) and the Board's Stewardship Implementation Framework, which notes, with regard to escalation: "The Board's Investment Committee believes that there are circumstances in which poor ESG and stewardship performance could warrant the termination of an asset manager's investment mandate." Regular meetings and due diligence questionnaires lead to a range of outcomes, including changes to our internal enhanced ESG assessment/rating of the manager (which is considered by the investment committee on a quarterly basis), actions and follow up meetings, and amendments to documentation (for example, to reflect an agreed decarbonisation strategy).

The Board encourages its asset managers to join our collaborative engagement efforts. For example, on behalf of Climate Action 100+ (CA100+), we lead on engagement with Royal Dutch Shell alongside one of our asset managers. The Board undertakes and monitors proxy voting in-house (see pages 27, 28, 29 and 38), including regular reviews of the recommendations provided by our service provider, ISS. Outcomes and insights from these reviews feed into our annual voting policy review process. We operate a monthly screening committee (comprising executives from the Church of England Pensions Board, the Church Commissioners and the CBF Church of England Funds, who jointly maintain a shared restricted list) that reviews our screening service provider and maintains our list of 'special restricted' companies (see Screening), which we add to the screening service provision from MSCI. On the whole, our service providers have met our expectations. Our service providers (MSCI and ISS) are monitored on an ongoing basis at an operational level, via the a monthly screening committee mentioned above, and through various compliance and quarterly reporting check-ins. These provide us with the basis on which to say that on the whole our service providers have met our expectations.

Principle 9 Signatories engage with issuers to maintain or enhance the value of assets.

The way the Board prioritises, monitors and evaluates our corporate engagement and the outcomes we have seen, including case studies, are detailed on page 17 (where we disclose how five companies passed, and 12 failed engagement hurdles, leading to the 12 being restricted), pages 20, 22, 23, 25, 28, 29 which demonstrate a breadth of outcomes and escalation strategies, page 31 on manager engagement, and 33 on collaborative engagement. We engaged with 482 companies on 823 occasions in 2021. Some of these were not portfolio companies, but were engaged either with a view to restriction, or under our priority engagement strategies, on the basis that systemic change is needed, companies are in our "investable universe", and/or are in the supply chains of companies we hold investments in. For more explanation, see the Climate Change and Extractive Industries sections.

Our engagement with issuers often involves setting expectations (e.g. through the TPI, the IIGCC's Net Zero Investment Framework, corporate climate lobbying, in relation to disclosure and standards for tailings storage facilities, and workforce-related disclosures), and 2021 outcomes detailed above include escalation through proxy voting, further expectations-setting in engagement, disinvestment, and various changes made that satisfied expectations. Our Stewardship Implementation Framework ([CofE.io/PBStewardshipImplementation](https://cofe.io/PBStewardshipImplementation)) outlines the approach we take across asset classes, and in 2021 we engaged with all of our asset managers.

Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers.

The Board's collaborations (and roles/contributions) are highlighted in the section on Engagement Collaborations, on page 33, where we also indicate our role in the collaborations. As stated in the section on Our Approach (page 8), and demonstrated in the Climate Change (page 12) and Mining (page 22) sections, we work in collaboration with other investors in order to amplify our influence (e.g. we co-founded and chair the TPI, which is integral to our climate strategy and supported by over 120 investors with more than US\$40trn AUM (up from 95 investors with \$23trn AUM in 2020). Our work on tailings (page 22) involved partnerships with over 110 investors, the industry association representing the largest publicly listed mining companies and the UN Environment Programme. We also have regular contact, in collaboration with other investors, with community representatives from areas affected by the Brumadinho and Mariana tailings tragedies. The outcomes of our collaborative engagement are presented throughout the report above.

Principle 11 Signatories, where necessary, escalate stewardship activities to influence issuers.

The Board's Stewardship Implementation Framework and Business and Engagement Policy (www.churchofengland.org/eiag/policies) detail our expectations and escalation strategies for stewardship. In general we conduct stewardship against our policies in-house, rather than via our asset managers, though we do have general stewardship and ESG expectations of managers. Our ongoing monitoring of managers leads to a range of outcomes and escalation where there is misalignment between a manager's and our approach to stewardship, including changes to our internal enhanced ESG assessment/rating of the manager (which is considered by the investment committee on a quarterly basis), actions and follow up meetings, and amendments to documentation (e.g. to reflect an agreed decarbonisation strategy). We involve asset managers in our stewardship programmes on a case-by-case basis, particularly where they have additional insight that can be brought to bear (e.g. via an active strategy).

We have a special procedure for intensive engagement when severe ethical or responsible investment concerns arise. Engagement will normally involve multiple meetings with the company. Specific, measurable, achievable, reasonable and timely progress by the company is sought and monitored. Our Business and Engagement Policy states our preference for engagement, but escalation can lead to disinvestment. By way of some examples of escalation tactics, in 2021 these have included collaboration (on climate-change engagements), public statements (e.g. listing companies that did not respond to the Investor Mining and Tailings Safety Initiative's disclosure request on our website), preparing to file a shareholder resolution (which prompted a company to change their policy), voting against directors (we voted against management at 17.2% of all resolutions at company meetings), reducing exposure (through the FTSE TPI Climate Transition Index) and disinvestment (where we assess engagement has failed or that a company activity poses no possibility of reform).

We have also considered legal recourse in different markets where shareholder rights to file a resolution were not allowed by a company. While we felt we had a strong case, we decided against this course of action in 2021 but began a process to potentially do this in 2022 if the companies were not more responsive. Examples of specific escalation to achieve stewardship outcomes are provided in

the Stewardship Report in relation to climate lobbying (pages 15 and 16), delivering on the General Synod Commitment (page 17), the publication of a Net Zero Standard for oil and gas companies, and an ongoing pilot with 6 majors (page 17), gender diversity (page 24), and the case studies on pages 20, 28 and 29.

In asset classes beyond public equity, stewardship escalation comprises monitoring, and assessing our managers and engaging with them in relation to our concerns. These assessments are also raised with our Investment Committee. For our property portfolio, in 2021, building on engagement conducted in 2020, we have been able to report on the net zero commitments of UK funds (see page 37).

Principle 12 Signatories actively exercise their rights and responsibilities.

The Board conducts portfolio-wide ESG, thematic and controversy analysis. This helps us to prioritise engagement and feeds into our manager monitoring process (see pages 31 and 32). We vote our own shares in-house, according to our Voting Policy template disclosed in this Stewardship Report on page 38 (alongside all votes against management), thereby discharging the Board's responsibility to vote on its shares. In 2021 we cast 99% of the votes on ballot items on which we could have issued instructions (none of our public equity managers discharge voting rights on our behalf).

We have invested in an in-house governance and voting capability that is exercised by our specialist dedicated manager, who manages and monitors our voting processes. As a result we are able to apply expertise to exercise discretion (on the basis of the Board's ethical investment policies and corporate governance best practice) on resolutions that do not fall neatly under the template and on all shareholder resolutions. Case studies of vote outcomes are reported on pages 28, 29 and 38. The Board does not undertake stock lending.

In relation to fixed income investments, managers fall under our monitoring process (page 31), and our restricted list of listed issuers is applied so we deny debt financing to restricted companies. In 2022 we will conduct a review of credit that will consider further stewardship strategies in the asset class.

Our manager selection process includes stewardship from the earliest stage, involves a requirement that the manager can implement our restricted list (as appropriate for the asset class), considers their capacity for ESG integration and stewardship, and diversity (see page 24). Our expectations in this regard are set out in our Stewardship Implementation Framework ([CofE.io/PBStewardshipImplementation](https://cofe.io/PBStewardshipImplementation))

Shares are monitored via our custodian (Northern Trust), through our ESG provider MSCI, and our internal stewardship integration processes. Voting rights are monitored via ISS, our voting and screening manager, and the internal processes we have in place as described in our answer to Principles 6, 7 and 11 above.

In 2021 the Investment Committee undertook a "deep dive" session on proxy voting, resulting in some amendments to the template. We publicly disclose our votes and the rationale for our votes withheld or against management (cofe.io/VotingAndEng), and communicate directly with companies, prioritising FTSE 350 companies, our largest holdings and companies otherwise targeted for engagement.

Meet the team

The Investment Team integrates investment and stewardship functions both organisationally (the CIO and CRIO are co-heads of department) and operationally (stewardship specialists are part of manager selection and monitoring processes, for example).

Michael Pratten
Chief Investment Officer

Dan Taylor
Head of Manager Selection

Jason Brannigan
Senior Investment Analyst

Julie Dunne
Investment Operations Manager

Ryan Baker
Investment Analyst

Tammy Woods
PA to the CIO and CRIO

Adam Matthews
Chief Responsible Investment Officer

Stephen Barrie PhD
Deputy Chief Responsible Investment Officer

Clare Richards
Senior Engagement Manager

Raj Singh
Senior Engagement Manager

Sheila Stefani
Senior Stewardship Analyst

Theodore Cruthers
Analyst, Responsible Investment

The work of the Pensions Board is overseen by a Board of Trustees

The Trustees are elected or appointed by the members and employers of the pension schemes, and other interested bodies. The Chair of the Board is appointed by the Archbishops of Canterbury and York with the approval of General Synod.

In 2021, Synod approved measures to simplify the Board's governance structure, in line with best practice. The changes meant that for the first time, all Pensions Scheme members were invited to take part in Trustee elections. A new, smaller Board of Trustees took up office on 1 July 2021.

The Board of Trustees meets at least five times a year, supported by committees

covering housing, pensions, investments and audit.

Our Trustees each bring varied expertise, experience and views to our work, with such diversity directly enabling the successful delivery of all we do. At committee level, the Trustees are also supported by additional members, who are experts in their particular fields.



A diverse Trustee Board and committee structure is essential to the success of the Board's work. I am very grateful for the dedication and tireless work of all members – current and retired – in support of all whom we serve.

Clive Mather, Chair



THE CHURCH
OF ENGLAND

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For more information on the Church of England Pensions Board: www.churchofengland.org/cepb

The Board as at 31 December 2021:

Appointed Members:

Tony King
Clive Mather (Chair)
Nikesh Patel
The Revd Caroline Titley
Ian Wilson

Elected by the House of Laity:

Roger Boulton FIA
Canon Emma Osborne

Member Nominated Members:

The Revd Hugh Lee
The Revd Eleanor Robertshaw
Maggie Rodger
Michaela Southworth

Employer Nominated Members:

Richard Hubbard

Trustees who retired from the Board in the year:

The Revd Fr Paul Benfield
The Revd Nigel Bourne
Canon Nicolette Fisher
Canon Sandra Newton
The Revd Peter Ould
Canon Susan Pope
Bill Seddon
The Ven David Stanton
The Rt Revd Alan Wilson