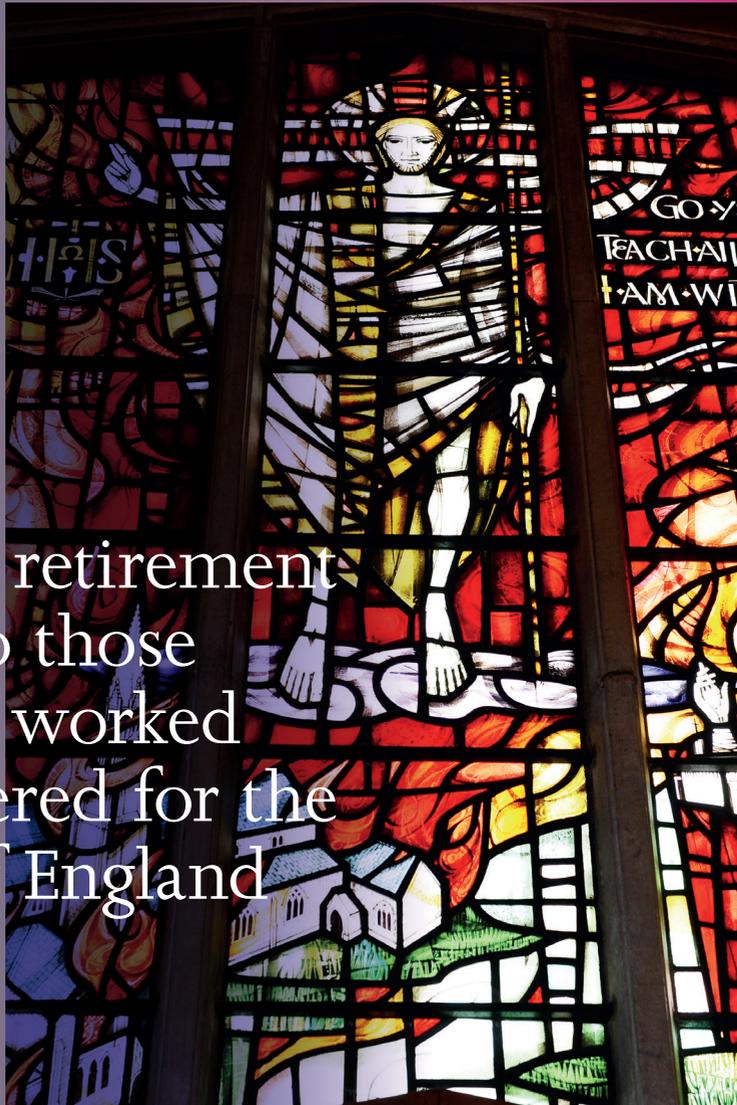


Annual Review 2018

Providing retirement
services to those
who have worked
or ministered for the
Church of England



Introduction

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40,000

people with their pension arrangements in various schemes (25,000 stipendiary clergy and more than 15,000 others)

We invest their funds of

£2.5bn

ethically to help provide for their future

600

employers participate in our pension schemes

The Church of England Pensions Board provides quality, specialist retirement services for people who have worked or ministered for the Church of England.

We are privileged to provide 40,000 people with their pension arrangements in various schemes and invest their funds of £2.5bn ethically to help provide for their future.

We have more than 25,000 stipendiary clergy and over 15,000 others enrolled in our pension schemes. We work with 600 employers and are supporting an increasing number of local Church employers meet their auto-enrolment commitments.

Alongside providing pension arrangements, we also assist retired clergy and their dependants with housing, either shared ownership or rented and supported living placements as necessary.

We take seriously our responsibility as a Christian shareholding fund and use our position as an active owner to engage on ethical, environmental and governance issues, whilst also delivering strong long-term returns for our members. Ours are the only pension schemes offering full compliance with the Church of England ethical investment policies.



Our strategic objectives:

- Managing the pension funds effectively and efficiently, applying an investment strategy that maximises our ability to meet all liabilities
- Providing a range of quality retirement housing
- Investing and managing assets within ethical investment guidelines to produce a sustainable investment return

Pensions

Over 40,000 people rely on us to administer their pension and over 600 employers participate in our schemes.

Customers of our schemes work as clergy, as lay leaders or support staff, or at diocesan offices and cathedrals. There are three current schemes:

Church of England Funded Pension Scheme ('CEFPS')

– provides pensions and associated benefits for clergy and others in stipendiary ministry for service from January 1998; benefits for service prior to this date are wholly funded by the Church Commissioners.

Church Administrators Pension Fund ('CAPF')

– provides pensions for the staff of the National Church Institutions. The fund has two sections – a defined benefits section which closed to new entrants in 2006, and a defined contribution section.

Church Workers Pension Fund ('CWPF')

– this provides a service to employers linked to the ministry and mission of the Church of England. It has grown over recent years as parishes and other church organisations have looked for a pension fund which fulfils the requirements of the Government's desire to see all employees enrolled in an appropriate pension scheme which meets certain standards.

There are currently over

500

employers participating in the scheme.

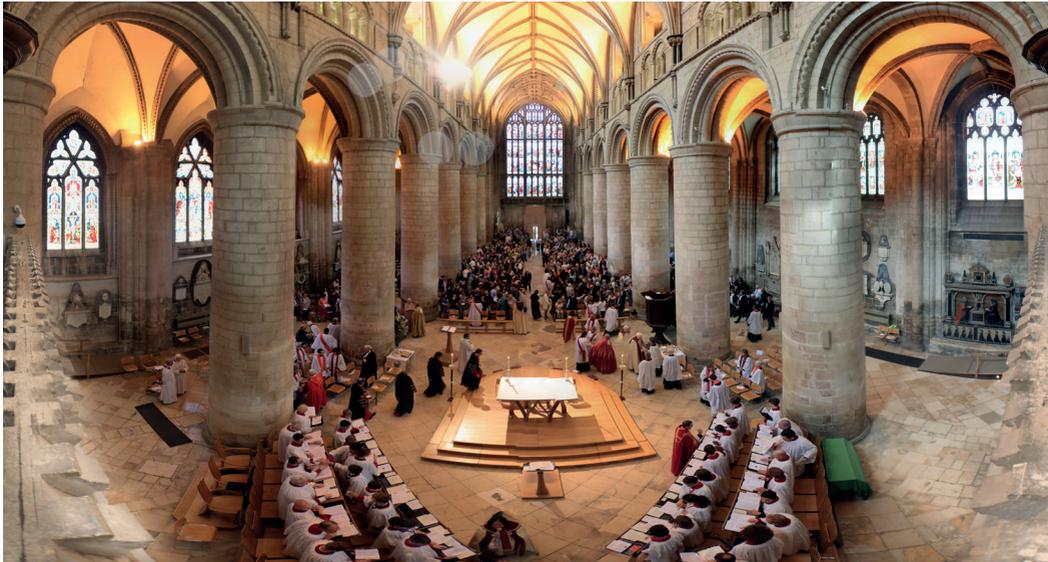
During the year we completed the transfer of the Clergy (Widows and Dependants) Fund into the Church of England Funded Pensions Scheme. The Scheme was established in 1954 to provide benefits to the widows and dependants of the clergy and was closed to new entrants in 1967. Benefits were payable to widows and dependants following the death of Clergymen who were ordained before 1968 and who were contributing members of the Scheme; increases to the benefits payable were discretionary depending on the funding position. The move ensures that the Fund's 1,000

members will receive guaranteed pension increases in the future.

On completing the actuarial variation of the Church Administrators Pension Fund, we worked with the employers in the Fund to agree a shorter deficit recovery period, whilst leaving the level of contributions unchanged.

In preparation for the Church of England Funded Pension Scheme valuation at the end of 2018, we actively engaged at an early stage with dioceses and other funders of the scheme.

“ — Over 40,000 people rely on us to administer their pension ”



Housing

Retirement can mean a significant housing challenge for clergy, particularly if they have lived in housing provided with their church role during their ministry.

The Pension Board provides affordable, modest housing to those in need of help through the Church's Housing Assistance for the Retired Ministry (CHARM) schemes. It also offers support to customers to ensure a smooth and easy transition from active ministry to retirement.

About 2,000 retired clergy households are housed through a variety of schemes, the largest of which is rental accommodation. Around 1,200 rent houses and flats (standalone bespoke properties spread throughout the country), whilst others live in shared ownership properties and in our seven supported living schemes.

When surveyed in 2018, nearly

70%

of new customers rated the service received from the housing team as 7 out of 10 or higher.

Over the course of the year, our Welfare Advice Service assisted over

120 households

– providing guidance on a range of benefits services and helping individuals obtain social and nursing care, as well as access to grants.

Finally, during 2018, the issue of a

£50m

fixed-rate bond was completed to secure the long-term financing of clergy retirement housing.

“ — 1,200
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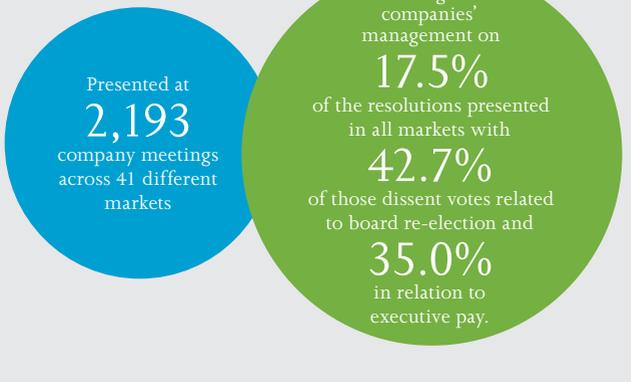
Investments

The Board actively engages with the companies in which it is invested and is committed to managing assets in a way that reflects the Church's teaching and values. It receives advice and support from the Church's Ethical Investment Advisory Group (EIAG) on issues relating to the ethics of investment.

We do not invest in companies that have significant involvement in gambling, the production and sale of alcohol, tobacco, pornography, defence or high interest rate lending.

We exercise as many as possible of our shareholder voting rights and actively engage with companies on key ethical and responsible investment issues.

In 2018, we:



Climate change continues to represent a systemic risk to all long-term investors and because it is also an ethical issue the Board prioritises its engagement and work in this area. We seek to use our position as an asset owner to drive ambitious change aligned with the goals of the Paris Climate Agreement.

A further priority for engagement efforts is the extractive industries. It is a challenging sector in which to be invested, but one that provides many important resources for every-day living.

As a result, the Board had been engaging with the mining industry association on tailings dam safety. This engagement, based on advice from the Church of England's Ethical Investment Advisory Group (EIAG), has enabled us to take a key role in leading global investors in demanding new safety standards and corporate disclosures.



Climate change continues to represent a systemic risk to all long-term investors

Investments continued

Climate Change – Engagement

A continued major focus of engagement in 2018 has been carbon emissions reduction and challenging companies in which the Board is invested to demonstrate that they have clear targets aligned to Paris Climate Agreement goals. Key to our strategy is the Transition Pathway Initiative (TPI), co-chaired by the Board with the Environmental Agency Pension Fund.

“ — Key to our strategy is the Transition Pathway Initiative... ”



280
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14
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The TPI goes from strength to strength: 280 companies are now assessed across 14 high carbon emitting sectors (including oil and gas, coal mining, automotive, aviation, electricity and cement), and it is now supported by around 50 asset owners globally (representing around \$15tn assets under management and advice).

The impact of corporate lobbying - both direct and in-direct through industry trade associations - on climate change public policy is hugely significant. Ten companies have so far undertaken reviews of their trade association membership or committed to them.



Case study

Holding companies to account

In December 2018, the oil and gas giant, Royal Dutch Shell ('Shell') announced plans to set carbon emission targets in the coming year.

In a first of its kind joint statement with investors, it pledged to link these goals to executive pay. The move followed action co-led by the Pensions Board, on behalf of Climate Action 100+, a major global investors' group focussed on the environment.

Significantly, Shell committed that targets will not only include emissions from the production of oil and gas but also from the use of products, such as petrol and diesel (consumer fuel usage accounts for 80% of the company's environmental impact). Shell also said it would review its trade association membership to check lobbying is aligned with the Paris Climate Agreement.

The work on securing this action received world-wide media coverage, with the *Financial Times* hailing it as a 'clear model for others'.

Investments update 2018

The returns from our pension schemes have been strong over the long-term.

For example, over the 15-year period to the end of 2018, the assets we invest for growth (as opposed to those we invest in a less risky way to back pensions that are already in payment) have returned 7.9% p.a., which is a compounded return of 212%, or a more than trebling of asset values over that time. Retail Price Inflation over that period has been 3.0% p.a.

In aggregate, the assets of the pension schemes that we administer returned -2.6% over 2018 (they returned 9.4% over 2017). Last year's investment backdrop was difficult, with the

FTSE 100 returning -8.7% and the MSCI World -3.8%. The declines happened chiefly in the fourth quarter of the year, although throughout 2018 volatility had been higher than in recent years. The first quarter of 2019 saw a significant recovery in share prices globally.

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

“ We pool most of the individual pension scheme assets for investment purposes ”

At the end of 2018 our growth assets* were valued at

£1.97bn

and were invested like this:



* Growth Assets are those from which we seek to get a return ('Return Seeking Pool'), whilst the remaining assets are Liability Matching and are used to fund future liabilities.

Our long-term investment plan sees us reducing our public equity investments (the Global developed, low volatility, emerging market and small cap segments in the chart to the left) to fund further investments in privately owned assets such as infrastructure, property and private companies. This will further diversify our growth portfolio and allow us to invest in areas such as renewable energy, energy efficiency, healthcare, environmental well-being and technology.

“ We hedge our pension assets prudently and cost effectively against moves in currency, inflation and interest rates ”

The returns from our growth assets over various time periods to 31 December 2018 are as follows:

	1 yr % p.a.	3 yr % p.a.	5 yr % p.a.	10 yr % p.a.	15 yr % p.a.
Growth Assets	-2.2	9.0	7.6	9.4	7.9
Comparators					
UK RPI	2.7	3.1	2.4	3.0	3.0
FTSE 100	-8.7	6.7	3.9	8.3	6.6
MSCI AC World Index (local currency)	-3.8	11.9	9.9	10.8	8.6

Board membership

The Pensions Board acts as a trustee to the pension schemes and charities.

There are 20 members, with the Chair appointed by the Archbishops of Canterbury and York with the approval of Synod. The remaining members of the Board are either elected or appointed by the members and employers of the pension schemes, and other interested bodies.

The members of the Pensions Board represent a balance of skills and expertise and are drawn from a wide range of constituencies.

The full Board meets five times a year. It is supported by committees covering housing, pensions, investments and audit.

Appointed Members:

Jeremy Clack FIA
Clive Mather*
Roger Mountford
Nikesh Patel***
Dr Jonathan Spencer****
The Revd Caroline Tittley***

Elected by the House of Laity:

Roger Boulton FIA
Canon Nicolette Fisher
Alan Fletcher ACII
Canon Emma Osborne
Bill Seddon

Member Nominated Members:

The Revd Fr Paul Benfield
Ian Boothroyd
The Revd Nigel Bourne
Ian Clark**
Michaela Southworth***
The Revd Peter Ould
Maggie Rodger
The Ven David Stanton
The Rt Revd Alan Wilson

Employer Nominated Members:

Richard Hubbard
Canon Sandra Newton

* Appointed Chair of the Board from 1 May 2019

** Left the Board during 2018

*** Joined the Board during 2018

**** Retired as Chair on 30 April 2019



THE CHURCH
OF ENGLAND

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