Church Administrators Pension Fund

Annual Report and Financial Statements
31 December 2022

Contents

Trustee's report

The Church of England Pensions Board ("the Board"), as Trustee of the Church Administrators Pension Fund ("CAPF", or "the Scheme") is pleased to present the Scheme's annual report for the year ended 31 December 2022.

Scheme constitution and management
The Scheme was established in 1985, under the provisions of Section 27 of the Clergy Pensions Measure 1961, to provide pensions for the lay staff of the General Synod and The Central Board of Finance of the Church of England (who transferred to the Archbishops' Council on its establishment in 1999). It was established to provide similar pension benefits to those staff as provided by the Church Commissioners Superannuation Scheme ("CCSS") for employees of the other National Church Institutions. It was approved, from 1 January 1985, as a retirement benefits scheme for the purposes of Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988.

With effect from 1 January 2000, the staff of the national church bodies and episcopal staff who had previously been covered under the CCSS were transferred to this Scheme (the CCSS was established under Section 17 of the Church Commissioners Measure 1947). Benefits arising from service prior to 2000 are wholly funded by the Church Commissioners. The Board administers the CCSS on behalf of the Church Commissioners and from the members' perspective, runs the CAPF and the CCSS, so that those with pension benefits earned from both schemes have a single point of contact and on retirement receive a single lump sum and consequently a single pension payment each month. The CAPF makes these payments on behalf of the Church Commissioners and is fully reimbursed by them in respect of the pre-2000 element of the payment they are responsible for funding. These amounts are not included in the financial statements of the CAPF.

There are two sections of the Scheme: a Defined Benefit section and a Defined Contribution section.

<u>Defined Benefit</u>
The Defined Benefit section was closed to new entrants with effect from 1 July 2006. In 2010, the final salary arrangement was replaced with one based on career average earnings for future service, and contracted into the State Second Pension Scheme.

Other than the Scheme's liability driven investments ("LDI"), the Scheme's investments are principally held in The Church of England Investment Fund for Pensions ("CEIFP"). The CEIFP was established in 1985 as a common investment fund for the Board's pension schemes. The Scheme has been a member of the CEIFP since 1985. The CEIFP pools assets to take advantage of economies of scale and reduce risk through diversification, to which the smaller schemes would not have access on their own. The CEIFP's annual report and financial statements are attached at Appendix 2.

The CEIFP has five pools: the public equity pool containing mostly listed equities, the diversified growth pool containing mostly property and private equity assets, the diversified income pool containing mostly private loans and infrastructure assets, the listed credit pool containing corporate bonds, and the liquidity pool containing cash.

In 2020 the Trustee, after taking investment advice and consultation with employers, has reviewed the Scheme's weighting to each pool and adopted a de-risking methodology to ensure the assets held are best suited to the Scheme's long-term interests. See the investment strategy section and the investment risk disclosures in Appendix 2 for more information.

Members of the defined benefit scheme can also make additional voluntary contributions. More information is given in the AVC section on page 7 regarding these arrangements.

<u>Defined Contribution</u>
New staff who join the Scheme join the Defined Contribution section. These contributions are managed by Legal and General Investment Management ("Legal and General") who offer members a range of investment funds depending on their requirements.

Rule changes
There were no changes to the Scheme rules during 2022. A full copy of the Scheme rules is available on request.

Financial developments
If 2021 was marked by high returns across most markets and asset classes, 2022 could not have been more of a contrast. It was always going to be a challenging market environment, as governments and central banks removed their support to pandemic afflicted economies, but the Russian invasion of Ukraine and the resulting energy crisis added to inflationary pressures and led to a marked increase in interest rates in most major economies. This had an adverse impact on equity markets and fixed income and credit markets, providing few places where investors could make positive returns.

One of the worst performing asset classes in headline terms, was UK government debt, where values fell as interest rates on these 'Gilt' edge securities rose sharply in response to the crisis in confidence sparked by the UK mini fiscal statement in September 2022. During the crisis the pooled LDI funds that the fund was invested at Blackrock came under considerable pressure and the manager had to change the market positioning of the fund. Unfortunately, this meant that the fund lost value relative to the underlying benchmark position that it was being managed against.

Market sentiment continues to be dominated by the outlook for inflation and whether central banks will have to raise interest rates to a level that could ultimately lead to a global recession. Early indications that inflation may have peaked, an end of China's zero-COVID policy and bounce in both the local and broader Asian economies, have provided some encouraging signs to the start of 2023 that such a recession may yet be avoided. However, geopolitical uncertainties remain and predicting the near-term performance of markets remains as difficult as ever. This is why we invest for the long-term and hold a well-diversified portfolio.

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under Sections 41(1) and (6) of that Act.

Going Concern
There has been no significant impact on contributions received from employers, as a result of the post pandemic context, geopolitical uncertainty or economic climate, and benefits have continued to be paid when due.

Trustee's report (continued)

The Scheme is supported by the employer covenant, because this ultimately underwrites investment risk and funding risk. A detailed covenant assessment is undertaken to coincide with each triennial valuation. This includes assessment of financial strength and security and stress testing the

ongoing viability of funders under various economic scenarios. Between valuations the Board undertakes pro-active engagement with responsible bodies, encourages all responsible bodies to inform the Board of relevant matters that may affect their covenant, and draws on information available to other NCIs on the financial health of responsible bodies. The Trustee has considered the impact the post pandemic context, geopolitical uncertainty and the economic climate has had on the responsible bodies and is satisfied that there was no material deterioration in the overall employer covenant and the employers can continue to support the Scheme for the foreseeable future.

Scheme management

The Board as Trustee is responsible for setting the overall strategy and managing the Scheme. The Board has established various committees to assist it in this responsibility. The Board has members elected and appointed by various means, which are described below. It delegates some of its business and decision making to sub-committees.

Board members (1 January 2022 to 13 July 2023)

Appointed with the approval of the General Synod, by the Archbishops of Canterbury and York Clive Mather (Chair)	
Appointed by the Archbishops of Canterbury and York Roger Boulton FIA Canon Emma Osborne Ian Wilson	**Appointed by the Archbishops of Canterbury and York after consultation with the Chairs of the Church of England Appointments Committee and the General Synod's House of Laity** Tony King
Appointed by the Archbishops of Canterbury and York after consultation with the Chair of the Church of England Appointments Committee and the Prolocutors of the Convocations of Canterbury and York The Revd Caroline Titley	**Appointed by the Archbishops of Canterbury and York after consultation with the Church Commissioners and the representatives of the dioceses** Nikesh Patel
Elected by the members of the Church Workers Pensions Fund Michaela Southworth	**Elected by the members of the Church Administrators Pensions Fund** Maggie Rodger
Elected by the members of the clergy pension schemes The Revd Hugh Lee The Revd Canon Eleanor Robertshaw	**Elected by the Employers in the Church Workers Pensions Fund and the Church Administrators Pensions Fund** Richard Hubbard

Committee Members (1 January 2022 to 13 July 2023)

Audit and Risk Committee Maggie Rodger (Chair) Tony King Ian Wilson Helen Ashley Taylor* Canon Susan Pope* Caron Bradshaw OBE*	**Pensions Committee** Richard Hubbard (Chair) The Revd Hugh Lee Maggie Rodger Michaela Southworth Ian Wilson
Housing Committee The Revd Caroline Titley (Chair) Tony King The Revd Canon Eleanor Robertshaw Jonathan Gregory* Tom Paul* Lawrence Santcross* The Rt Revd Alan Wilson*	**Investment Committee** Matthew Beesley* (to June 2022) Roger Boulton (Chair) Hannah Gore-Randall* (from March 2023) Canon Emma Osborne Nikesh Patel Jonathan Rodgers*(to May 2023) Chris Rule* (from March 2023) Padmesh Shukla* (from March 2023)

*Indicates members of committee who kindly give of their time and experience to the committee but are not trustees of the Pensions Board.

Employers

The Church Commissioners for England
The Archbishops' Council
The Church of England Pensions Board
The National Society (Church of England and Church in Wales) for the Promotion of Education

Trustee's report (continued)

Scheme advisors
The Trustee engages the below professional advisors to assist them in their responsibilities.

Actuary	Aaron Punwani, Lane Clark and Peacock LLP
Independent auditors	Crowe U.K. LLP
Bankers	Lloyds Bank plc
Investment Advisors	Mercer Ltd
Investment Custodians	Northern Trust Company Ltd
Investment Managers (Scheme)	BlackRock Investment Management (UK) Limited Legal and General (Defined Contribution investments)
Investment Managers (Common Investment Fund)	Antin Infrastructure Partners Arrowstreet Capital (until May 2022) Audax Group Basalt Infrastructure Partners Blackstone Cambridge Associates CBRE Global Investors Colchester Global Investors DBL Partners DIF Management EQT Infrastructure Partners Igneo (formerly First Sentier) Generation Investment Management LLP GW&K (Until January 2022) H.I.G. Capital Insight Investment Management I Squared Global Capital KKR & Co. LP Legal & General Investment Management T Rowe Price

Membership
The change in membership during the year is as follows:

Defined Benefit	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 January	**74**	**398**	**821**	**118**	**1,411**
Members retiring	(4)	(24)	28	-	-
Members leaving with deferred pension	(7)	7	-	-	-
Deaths	-	(2)	(34)	(8)	(44)
Transfers out	-	(3)	-	-	(3)
New spouse and dependent pensions	-	-	-	15	15
Total at 31 December	**63**	**376**	**815**	**125**	**1,379**

Note: Total number of pensioners receiving pensions and deferred members in the table above include both CAPF and the CCSS.

Defined Contribution	Active	Deferred	Total
At 1 January	**493**	**746**	**1,239**
New members joining	161	-	161
Members retiring	(2)	(10)	(12)
Members leaving prior to pension age	(101)	101	-
Re-entrants	2	(2)	-
Members leaving with no liability	(3)	(1)	(4)
Transfers out	(4)	(12)	(16)
Total at 31 December	**546**	**822**	**1,368**

Pension Increases
Increases to pensions in payment in the Defined Benefit section of the CAPF are made in line with the Retail Prices Index ("RPI"). The changes in RPI for the period September to September is the reference period for pension increases from 1 January or 1 April in the following year.

The increase in RPI in the year to 30 September 2022 was 12.6% (2021: 4.9%). Pensions in payment on 1 January or 1 April 2023 increased therefore by 12.6% (2021: 4.9%). The part that represents Post 1988 Guaranteed Minimum Pension was increased by 3%. There were no discretionary increases, apart from an increase of 10.1% from 1 April 2022 for pre 1997 excess in line with recent practice.

Transfers
As prescribed by statutory regulations, all transfer payments were calculated in accordance with the methods and assumptions approved by the Scheme's actuary. There were no discretionary benefits. With effect from 1 April 2009, the Board ceased accepting transfers into the Defined Benefit section of the Scheme.

Trustee's report (continued)

Report on actuarial liabilities
Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions determined by the Trustee, after considering actuarial advice and having consulted with the National Church Institutions, and is set out in the Statement of Funding Principles, which is available to Scheme members on request.

These liabilities are considered by the Scheme's Actuary who carries out an actuarial valuation of such liabilities every three years. This valuation considers the funding position of the Scheme and the level of contributions payable. The financial statements do not include liabilities in respect of future retirement benefits.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2019. This showed that on that date:

- the value of the technical provision was £151.4 million; and
- the value of the net assets of the Defined Benefit section was £142.3 million
- the deficit was £9.1 million

The method and significant actuarial assumptions used to determine the technical provisions are set out below (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method
The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount rate	2.3% p.a. reducing linearly from 1 January 2020 to 31 December 2030 to 1.45% p.a.
RPI	3.2% p.a.
CPI	2.4% p.a.
Pension increases:	
Increasing in line with RPI (capped at 5%)	3.2% p.a.
Increasing in line with CPI (capped at 5%)	2.4% p.a.
Post-retirement mortality	100% of S3NMA and S3NFA mortality tables projected from 2007 in line with the CMI 2019 extended model with long-term annual rate of improvement of 1.5% p.a, a smoothing parameter of 8 and an addition to the initial rates of 0.5% p.a.

As a result of this actuarial valuation as at 31 December 2019, the Trustee set the recovery period (the period over which the identified deficit is targeted to be eliminated) at 4 years. The employer contribution rate remained 19.1% of pensionable salary until 1 January 2021, when the employer contribution rate increased to 27.6%.

In addition to the future service contributions, the employers are paying contributions towards the Scheme deficit of £2,847,000 per annum from 1 January 2020 to 31 December 2020, decreasing to £2,400,000 from 1 January 2021 to 31 December 2023. This sum is being paid by each employer in proportion to pensionable salaries.

An allowance was made for the cost of adjusting benefits to remove any inequalities arising from Guaranteed Minimum Pensions, although the precise effect of Guaranteed Minimum Pension equalisation is not known at present. Further details are in note 17 to the financial statements.

The Summary of Contributions and certificate are set out on pages 30 and 31.

In reaching its decision on the contribution rate, the key points taken into account by the Board were:

- This is a closed Scheme with a much reduced active membership since the last valuation;
- The modifications to the benefit structure of the defined benefit section implemented on 1 July 2010;
- Increasing life expectancy, with the adoption of the most up to date mortality tables, and additional provision for some continuing improvement in the future;
- An assumption that, over the long term, pensionable salaries will increase by CPI plus 1.2%;
- The anticipated rate of return on return-seeking assets being 1.1% pa above the return from gilts in the calculation of the technical provisions and in the recovery plan.

The next actuarial valuation of the Scheme is due as at 31 December 2022. This is currently in progress and it is expected to show an improvement in the Scheme's funding position.

Trustee's report (continued)

Investment management

At the end of 2022, the investments of the Scheme were as set out below. Detailed information on the performance, management and investment risks of the CEIFP is set out in Appendix 2.

	2022 £'000	**2021 £'000**	Nature of investment
Return seeking investments ("RSI")			
CEIFP – Public Equity Pool	**5,765**	22,916	Public equities
CEIFP – Diversified Income Pool	**6,104**	12,640	Private infrastructure equity, private debt
CEIFP – Liquidity Pool	**40**	2,797	Cash
Total RSI	**11,909**	38,353	
Liability matching investments ("LMI")			
CEIFP – Listed Credit Pool	**12,687**	30,255	High quality corporate bonds
Liability Driven Investments ("LDI")	**76,007**	99,976	Pooled investment vehicle investing in gilts
Total LMI	**88,694**	130,231	
Total at 31 December	**100,603**	168,584	

Investment strategy and principles

The Trustee has delegated the responsibility for the management of investments to an Investment Committee, which is supported by professional in-house staff and external investment managers and advisors. The Trustee sets the investment strategy for the Scheme after taking advice from the Scheme's Investment Advisor. The Trustee has put in place investment mandates with its investment managers which implement this strategy.

The Trustees have been following a 'trigger based' strategy to manage the relative weighting to return seeking and liability matching investments within the scheme. As a result of relative movements in equity and fixed income assets a rebalancing was undertaken towards the end of August to de-risk the CAPF by lowering the allocation to the public equity pool and increase the weighting to listed credit and LDI.

The reduction in equity allocation led to a further consolidation of the equity managers that were employed in the equity pool within the CEIFP, with the termination of the emerging market equity mandate with GW&K and the small cap equity mandate with Arrowstreet. Proceeds were used to meet margin and collateral requirements for our FX hedges and LDI portfolios, fund investments in the listed buy and maintain credit portfolio and to help transition the LDI portfolios with BlackRock. Additional commitments were also made into new infrastructure funds in the Diversified Income pool in the CEIFP, with existing infrastructure equity partners Igneo (formerly First State) and Antin.

The details of the Trustee's policies with respect to environmental, social and governance matters are included in Appendix 1. Appendix 1 forms part of the Trustee's Report. The Implementation Statement included as Appendix 3 discusses the implementation of the Statement of Investment Principles. Appendix 3 forms part of the Trustee's Report.

In accordance with Section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been prepared for the Scheme by the Trustee. This incorporates the investment strategy and is supported by documents that set out how the investment strategy is implemented. The SIP is included in this annual report, and copies of the SIP may be obtained from the contact details shown at the end of this report. The investment risks and the strategies in place to mitigate them are described in the notes to the financial statements.

The Trustee takes various financially material considerations into account in the selection, retention and realisation of investments. Ethical and responsible investment considerations are central to the Board's work. They reflect our Christian identity and the values of the Board and our beneficiaries, and they inform our aim of achieving a long-term sustainable return on the Board's investments. The Trustee recognises climate change as a major financial and social risk, and one that has potential to impact gravely on the financial well-being of the members of its schemes as well as their quality of life in retirement. Other matters taken into consideration include the risk appetite of the Scheme, strategic asset allocation, opportunities to capture illiquidity premia, diversification within and across asset classes, the potential benefits of active fund management, and the cost of implementation of investment decisions.

The Trustee engages with the employers regularly, including on material non-financial matters. The Trustee recognises that the beneficiaries and the employers 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.

Investment managers are appointed based on their capabilities and the perceived likelihood of them meeting the Trustee's return and risk expectations. The manager selection process is designed to ensure that appointments are consistent with the Board's ethical, environmental, social and governance policies. As part of this, the Trustee undertakes due diligence ahead of investing to ensure it is aware of the:

- Underlying assets held and how they will allocate between them;

- Risks associated with the underlying mix of assets and the steps the investment manager takes to mitigate them;

- Expected return targeted by the investment manager and details around realisation of the investment; and

- Impact of financial and non-financial factors, including those outlined in the Ethical and responsible investment section, on the investment over the long-term.

Should an investment manager make changes to any of these factors, the Trustee will assess the impact and (where no longer aligned) consider what action to take. The Trustee seeks input from its investment consultant for their forward-looking assessment of the investment managers' abilities to meet their performance objectives over a full market cycle and an assessment of how environmental, social and governance factors are integrated into their investment processes. In addition, the investment team maintains its own independent ESG ratings for the directly appointed listed equity managers. These views assist the Trustee in their ongoing monitoring of the investment managers and are considered when making selection and retention decisions.

Trustee's report (continued)

Where the Trustee invests via a pooled vehicle (rather than a segregated mandate), it accepts that it has limited ability to specify the investment guidelines, risk profile or return targets of an investment manager. Despite this, the Trustee believes that pooled vehicles can be identified that are aligned with its policies.

The Trustee also values engagement with companies over responsible and ethical investment issues, and it considers that as a more effective means of exercising its stewardship responsibilities than disinvestment in many situations. Company engagement is carried out and monitored for effective change by the Board's investment team. The Trustee regularly reviews the engagement and corporate governance activities of the investment team.

Defined Benefit

Management and custody of investments

The CEIFP's custody arrangements are described in the CEIFP's Trustee's Report in Appendix 2.

The Scheme holds £76m (2021: £100m) of its liability matching assets outside the CEIFP in its own LDI account. The Trustee has appointed The Northern Trust Company Limited ("Northern Trust") to keep custody of the Scheme's investments, other than pooled investment vehicles, where the manager makes its own arrangements for the custody of underlying investments.

Investment performance

Fears that inflation and associated tightening in monetary policy could prompt a recession plagued markets for much of the year. This is largely reflected in the in the -41.05%, return on the scheme's DB investment assets for 2022, with negative returns on the public equity pool (-13.3%) and Listed Credit Pool (-19.5%) in the CEIFP.

The impact of rising inflation, higher short-term rates and the crisis in confidence sparked by the UK mini fiscal statement in September, is most readily seen In the large negative return on the LDI portfolio of (- 55.6%).

The infrastructure, private debt and alternative income and credit portfolios in the Diversified Income portfolio, fared better over the course of the year and provided an element of diversification.

Although returns have been somewhat disappointing, many fixed income markets have arguably moved to a point where we believe valuations are starting to look attractive from a longer-term perspective.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and considers them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

Additional Voluntary Contributions (AVCs)

AVCs to the Defined Benefit section are paid into one of the following arrangements:

- Church Workers Pension Fund – Pension Builder Classic section, where they are converted into guaranteed pension when they are received;
- CAPF Defined Benefits section – where they purchase added years.

At the end of 2022, 10 (2021: 11) Defined Benefit members were paying AVCs.

Defined Contribution

The Board has appointed Legal and General to manage its Defined Contribution investments. A range of funds are available to the members and there are three main types of investments: mixed investment Target Date Funds, equities; bonds and gilts; and cash.

The current default investment arrangement is a Target Date Fund which invests in a mixture of assets. It initially invests in higher risk assets and moves the investments as the chosen retirement date gets closer into investments suitable to be used either for drawdown, an annuity or to stay invested. The drawdown journey is the default.

The performance of the Defined Contribution section assets will vary depending on each member's units selected. The performance of the default option depends on the length of time that a member has until retirement. The performance of the funds are set out in the Defined Contribution Governance Statement included within the Annual Report.

Additional Voluntary Contributions (AVCs)

AVCs are used to purchase units in the investment funds offered by Legal and General.

At the end of 2022, 350 (2021: 316) members were paying AVCs.

Employer-related investments

Details of employer-related investments are given in note 14 to the financial statements.

Trustee's report (continued)

Further Information

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be addressed to:

The Pensions Department
Church of England Pensions Board
PO Box 2026
Pershore
WR10 9BW

Alternatively, enquiries may be made by email to pensions@churchofengland.org, or by telephone to 020 7898 1801.

Approval
The Trustee's Report and the Statement of Trustee's Responsibilities set out on page 16 were approved by the Trustee on 13 July 2023 and signed on its behalf by:

Clive Mather
Chairman of the Church of England Pensions Board

Defined Contribution Governance statement for the year ended 31 December 2022

Introduction

The DC Section of the Church Administrators Pension Fund (the "Fund") is an occupational pension scheme providing defined contribution ("DC") benefits (a DC pension scheme is a scheme into which a specified rate of employee and employer contributions are paid, and under which the member chooses their investments and bears the investment risk). Members can also pay Additional Voluntary Contributions ("AVCs") into the Fund.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. The Church of England Pensions Board as trustee of the CAPF (the "Trustee") is required to produce a yearly statement (signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (i.e. administration of the Fund, such as investment of contributions);
- the charges and transaction costs borne by members for the default option and any other investment option members can select or have assets in, such as "legacy" funds;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- how the value members obtain from the Fund is assessed; and
- Trustee knowledge and understanding.

This Statement covers the period from 1 January 2022 to 31 December 2022 (the "Fund Year").

Default arrangements

The Fund is used as a Qualifying Scheme for automatic enrolment purposes.

The Trustee has made available a range of investment options for members. Members who join the Fund and who do not choose an investment option are placed into the Drawdown Journey (the "Default"). The Trustee recognises that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustee decided to make the Default a Target Date Fund ("TDF") strategy, which means that members' assets are switched automatically and gradually to lower risk investments as members approach their target retirement age.

There is also a legacy default strategy (the "Legacy Default") which is a lifestyle strategy targeting annuity purchase at retirement. This was replaced by the current Default strategy in February 2019. Most members in the Legacy Default were transferred to the current Default strategy at that time. However, members who were less than 5 years to their target retirement date were not moved automatically and so have remained in the Legacy Default.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the Default and Legacy Default.

Details of the objectives and the Trustee's policies regarding the Default and Legacy Default can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Fund's SIP covering the default arrangement is attached to this document.

The aims and objectives of the Default arrangement, as stated in the SIP, are as follows:

- To generate returns in excess of inflation during the earlier part of the strategy whilst managing downside risk;
- To provide a strategy that reduces investment risk relative to the benefits members are likely to take at retirement, as members approach retirement; and
- To provide exposure, at retirement, to assets that are considered suitable for those looking to enter into an income drawdown arrangement at retirement.

The Legacy Default was last reviewed on 16 July 2020. The Default was reviewed during the Fund Year on 30 March 2022. The Trustee formally reviews the default arrangements at least every three years or immediately following any significant change in investment policy or the Fund's member profile.

The performance and strategy of the Default and Legacy Default are reviewed to ensure that investment returns (after deduction of any charges) have been consistent with the Trustee's aims and objectives for those arrangements, as stated in the SIP, and to check that it continues to be suitable and appropriate given the Fund's membership profile. This includes an analysis of member demographics and takes into account expectations of how the members in the relevant default arrangement will take their pension at retirement.

Following the review of the Default in March 2022, the Trustee concluded that it remained appropriate for the Default to target income drawdown at retirement. In addition, as part of the review the Trustee agreed to proposed changes being made to the Default by L&G, as investment manager for the Fund, which involved a greater level of explicit Environmental, Social and Governance ("ESG") integration and lower fees for Fund members. The changes were implemented in June 2022.

The Trustee also offered a third TDF strategy, the 'Stay Invested Journey', for part of the Fund Year. However, L&G, as the investment manager for the Fund, discontinued the 'Stay Invested Journey' TDF range with effect from 10 June 2022. Members of the Fund who were invested in this TDF were moved into the Default TDF and given the option to "opt-out" and select an alternative arrangement prior to being moved.

Defined Contribution Governance statement (continued)

Regarding the Legacy Default strategy, the Trustee remains satisfied that it is appropriate for CAPF members who were within 5 years of their target retirement date at the point the new default was introduced in February 2019. By February 2024 all such members should have retired, or switched to a different strategy, and therefore no further review of the Legacy Default strategy is planned.

The Trustee also monitors the performance of the Fund's default arrangements against its objectives for those arrangements, on a quarterly basis. The reviews include analysis of performance to check that the risk and return levels meet expectations. Following each of its reviews during the Fund Year, the Trustee concluded that the Fund's default arrangements were performing broadly as expected given market conditions over the periods assessed.

Requirements for processing core financial transactions
The processing of core financial transactions is carried out by the administrator of the Fund, the administration team of the Church of England Pension Board. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Fund, transfers of assets between different investments within the Fund, and payments to members/beneficiaries.

The Trustee recognises that delay and error can cause significant issues for members. They can also cause members to lose faith in the Fund, which may in turn reduce their propensity to save and impair future retirement outcomes. The Trustee has received assurance from the Fund's administrator that there are adequate internal controls to support prompt and accurate processing of core financial transactions.

The Trustee has a Service Level Agreement ("SLA") in place with the Fund's administrator which covers the accuracy and timeliness of all core financial transactions. The key processes adopted by the administrator to help it meet the SLA are as follows:

- process management within the administration system detailing time outstanding to complete tasks within their assigned SLA;
- weekly reporting to senior managers detailing any SLA failures and reason for failure;
- daily monitoring of emails by an assigned member of staff;
- daily monitoring of bank accounts; and
- checking by two people of investment and banking transactions.

To help the Trustee monitor whether service levels are being met, the Trustee receives quarterly reports about the Fund administrator's performance and compliance with the SLA. Any issues identified by the Trustee as part of its review processes would be raised with the Fund's administrator immediately and steps would be taken to resolve the issues.

Based on its review processes, the Trustee is satisfied that over the period covered by this Statement and in respect of the Fund:

- the administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions;
- core financial transactions have been processed promptly and accurately to an acceptable level during the Fund Year.

Member-borne charges and transaction costs
The Trustee is required to set out the on-going charges incurred by members over the Fund Year, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges are shown as a per annum ("pa") figure and exclude administration charges, since these are not met by members.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Fund's fund managers buy and sell assets within investment funds, but are exclusive of any costs incurred when members invest in and switch between funds. Transaction costs are borne by members.

The charges and transaction costs have been supplied by Legal and General ("L&G") who is the investment manager for the Fund. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. The Trustee has shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations the Trustee has used zero where a transaction cost is negative to give a more realistic projection (ie the Trustee would not expect transaction costs to be negative over the long term).

Default arrangement
The Default arrangement is a Target Date Fund ("TDF"), the Drawdown Journey, which is for members looking to target income drawdown at retirement at a particular age. The TDF's asset allocation changes over time, similar to a lifestyle arrangement, with members' assets automatically moving between different asset classes as they approach their target retirement age. Whilst the annual management charge component of the fee charged to members for investing in this strategy remains the same regardless of how far members are from their target retirement age, the level of additional expenses (and hence the overall fees) and transaction costs can sometimes vary, depending on how close members are to their target retirement age and what assets they are invested in.

Defined Contribution Governance statement (continued)

For the period covered by this Statement, annualised charges and transaction costs for all the vintages of the Default TDF with members invested are set out in the following table.

Default charges and transaction costs

Vintage	TER[1]	Transaction costs
2015-2020	0.25	0.14
2020-2025	0.25	0.10
2025-2030	0.25	0.13
2030-2035	0.25	0.15
2035-2040	0.25	0.16
2040-2045	0.25	0.16
2045-2050	0.25	0.17
2050-2055	0.25	0.18
2055-2060	0.25	0.18
2060-2065	0.25	0.19

[1]Prior to the changes made to the Default TDF range on 10 June 2022, the TER for all vintages was 0.30% per annum.

Legacy Default arrangement

The Legacy Default is a lifestyle strategy, targeting annuity purchase at retirement. The Legacy Default's allocation similarly changes over time, with members' assets automatically moving between different asset classes as they approach their target retirement date. Therefore, fees charged to members for investing in this strategy vary as they move closer to retirement. The level of transaction costs incurred by members in the Legacy Default also varies as members move closer to retirement.

For the period covered by this Statement, annualised charges and transaction costs for the Legacy Default are set out in following table.

Legacy default arrangement charges and transaction costs

Years to target retirement age	TER	Transaction costs
5 or more years to retirement	0.19	0.12
4 years to retirement	0.17	0.13
3 years to retirement	0.16	0.14
2 years to retirement	0.14	0.15
1 year to retirement	0.12	0.16
At retirement	0.11	0.17

Self-select options

In addition to the Default, members also have the option to invest in one other TDF strategy, the 'Annuity Journey'. There is also an ethical lifestyle option and several other self-select funds.

As noted in section 2 of the Statement, the Trustee offered a third TDF strategy, the Stay Invested Journey, until it was discontinued by L&G, as the investment manager for the Fund, with effect from 10 June 2022. As such, for the purposes of this Statement, the Trustee has not included the 'Stay Invested Journey' TDF.

For the period covered by this Statement, annualised charges and transaction costs throughout the vintages of the Annuity Journey with members invested are set out in the following table.

Annuity Journey charges and transaction costs

Vintage	TER[1]	Transaction costs
2025 – 2030	0.25	0.07
2030 – 2035	0.25	0.03
2035 – 2040	0.25	0.03 / 0.15
2040 – 2045	0.25	0.03 / 0.15
2045 – 2050	0.25	0.17

[1]Prior to the changes made to the Annuity Journey TDF range on 10 June 2022, the TER for all vintages was 0.30% per annum.

Defined Contribution Governance statement (continued)

For the Fund Year, annualised charges and transaction costs for the Ethical lifestyle option are set out in the table below:

Ethical Lifestyle option charges and transaction costs

Years to target retirement age	TER	Transaction costs
5 or more years to retirement	0.25	0.02
4 years to retirement	0.22	0.05
3 years to retirement	0.19	0.08
2 years to retirement	0.16	0.11
1 year to retirement	0.14	0.14
At retirement	0.11	0.17

The level of charges for each self-select fund and the transaction costs over the period covered by this Statement are set out in the following table.

Self-select fund charges and transaction costs

Fund name	TER	Transaction costs
L&G Ethical UK Equity Index Fund	0.20	0.04
L&G Ethical Global Equity Index Fund	0.30	0.00
L&G UK Equity Index Fund	0.10	0.04
L&G Global Equity Market Weights (30:70) Index Fund	0.19	0.12
L&G Overseas Equity Consensus Index Fund	0.20	0.07
L&G Over 5 years UK Index-Linked Gilts Fund	0.10	0.21
L&G Over 15 Year Gilts Index Fund	0.10	0.19
L&G AAA-AA-A Corporate Bond All Stocks Index Fund	0.15	-0.02
L&G Managed Property Fund	0.70	-0.07
L&G Cash Fund	0.13	0.03

Additional Voluntary Contributions (AVCs)
Members paying AVCs have exactly the same choice of investments for their AVCs as they do for regular contributions. Annualised charges and transaction costs in respect of AVCs are the same as those set out in the tables above.

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings (including AVCs). In preparing this illustration, we had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past four years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). The Trustee has used the average annualised transaction costs over the past four years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Fund Year.
- The illustration is shown for the Default (the Drawdown Journey), since this is the arrangement with the most members invested in it, as well the legacy default arrangement and two funds from the Fund's self-select fund range. The two self-select funds shown in the illustration are:
    - the fund with highest annual member borne costs (TER plus Fund Year transaction costs) – this is the L&G Managed Property Fund
    - the fund with lowest annual member borne costs – this is the L&G UK Equity Index Fund

Defined Contribution Governance statement (continued)

Projected pension pot in today's money

	Default option		Legacy Default option		L&G Managed Property Fund		L&G UK Equity Index Fund	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£7,400	£7,300	£7,400	£7,400	£7,300	£7,300	£7,400	£7,400
3	£13,600	£13,600	£13,900	£13,800	£13,600	£13,400	£13,900	£13,900
5	£20,100	£19,900	£20,800	£20,600	£20,000	£19,600	£20,800	£20,700
10	£36,800	£36,100	£39,600	£39,100	£36,900	£35,500	£39,600	£39,400
15	£54,400	£53,000	£61,300	£60,000	£55,100	£52,000	£61,300	£60,700
20	£73,200	£70,800	£86,000	£83,600	£74,700	£69,200	£86,000	£85,000
25	£93,300	£89,400	£114,300	£110,300	£95,900	£87,100	£114,300	£112,700
30	£114,600	£108,900	£146,800	£140,600	£118,700	£105,800	£146,800	£144,300
35	£134,000	£126,200	£184,000	£174,800	£143,200	£125,200	£184,000	£180,200
40	£148,400	£138,600	£197,500	£186,400	£169,600	£145,400	£226,600	£221,200

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. The long term annual inflation assumption used is 2.5%, as prescribed by the Financial Reporting Council (FRC) in its Actuarial Standard Technical Memorandum 1 ("TM1").
- Annual salary growth is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with the prescribed inflation assumption to allow for prudence in the projected values.
- The starting pot size used is £4,300. This is the approximate average (median) pot size for active members aged 30 years and younger (rather than using a whole membership average, we have taken this approach to give a more realistic 40-year projection.
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The starting salary is assumed to be £37,000. This is the approximate median salary for active members aged 30 or younger.
- Total contributions (employee plus employer) are assumed to be 8.0% of salary per year. The employer contribution for members under the age of 30 is 8.0% per year, whilst the average member for this age cohort does not contribute.
- The projected annual returns used are as follows:
- Default option: 1.9% above inflation for the initial years, gradually reducing to a return of 0.3% below inflation at the at-retirement allocation of the Target Date Fund.
- Legacy Default option 2.8% above inflation for the initial years, gradually reducing to a return of 2.0% below inflation at the at retirement allocation of the lifestyle.
    - L&G Managed Property Fund: 1.5% above inflation
    - L&G UK Equity Index Fund: 2.8% above inflation
- No allowance for active management outperformance has been made.

Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the Fund Year. Returns for the TDFs, lifestyle arrangements and the self-select range are shown over various periods.

As noted in Section 2 of this Statement, members who were invested in the 'Stay Invested Journey' TDF strategy prior to it being discontinued by L&G in June 2022 were moved into the Default TDF and given the option to "opt-out" and select an alternative arrangement prior to being moved. As such, the Trustee requested chain-linked performance from L&G to capture this change but this has not been provided as at the time of writing.

For the TDF arrangements (Default and Annuity Journey), where returns vary with age, returns are shown for members invested in different vintages (determined by their selected retirement age) over the periods shown.

For the lifestyle arrangements (Legacy Default and Ethical Lifestyle), where returns vary with age, the Department of Work and Pensions guidance states that the Trustee should show returns over various periods, for a member aged 25, 45 and 55 at the start of the period that the returns are shown over. This has been shown in the tables below. The Trustee has also included returns for members aged 60 as the allocation to the underlying funds within the two lifestyle arrangements remains static until the last 5 years leading up to retirement. A target retirement age of 65 has been assumed for each of these tables.

Defined Contribution Governance statement (continued)

The Drawdown Journey net returns over periods to Scheme Year end

Vintage	1 year (%)	Since inception (% pa)[1]
2060-2065	-8.0	5.6
2040-2045	-8.0	4.1
2030-2035	-8.2	4.1

1 The inception date of the L&G Target Date Funds for CAPF is January 2019.

Legacy Default net returns over periods to Scheme Year end

Age of the member at the start of the period that the returns are shown over	1 year (%)	5 year (% pa)
25	-10.1	5.3
45	-10.1	5.3
55	-10.1	5.3
60	-13.8	-2.4

Ethical Lifestyle net returns over periods to Scheme Year end

Age of the member at the start of the period that the returns are shown over	1 year (%)	5 year (% pa)
25	-2.7	6.4
45	-2.7	6.4
55	-2.7	6.4
60	-7.9	-2.4

The Annuity Journey net returns over periods to Scheme Year end

Vintage	1 year (%)	Since inception (% pa)
2045-2050	-7.6	4.5[1]
2040-2045	-8.2	1.8[2]
2035-2040	-8.2	4.3[1]

[1]The inception date of the L&G Target Date Fund for CAPF is January 2019.
[2]The inception date of the L&G Target Date Fund for CAPF is September 2019.

Self-select fund net returns over periods to Scheme Year end

Fund name	1 year (%)	5 year (% pa)
L&G Ethical UK Equity Index Fund	1.3	3.1
L&G Ethical Global Equity Index Fund	-6.6	9.4
L&G UK Equity Index Fund	0.8	3.1
L&G Global Equity Market Weights (30:70) Index Fund	-10.1	5.3
L&G Overseas Equity Consensus Index Fund	-8.4	8.2
L&G Over 5 years UK Index-Linked Gilts Fund	-38.8	-5.4
L&G Over 15 Year Gilts Index Fund	-40.6	-6.9
L&G AAA-AA-A Corporate Bond All Stocks Index Fund	-17.3	-1.9
L&G Managed Property Fund	-8.6	2.5
L&G Cash Fund	1.2	0.5

Value for members assessment

The Trustee is required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Fund. The date of the last review, which covered the Fund Year, was 28 March 2023. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of funds available to members.

Defined Contribution Governance statement (continued)

The Trustee's assessment included a review of the performance of the Fund's investment funds (after all charges and transaction costs) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this Statement have been consistent with their stated investment objectives given the market conditions over the period.

In carrying out its assessment, the Trustee also considered the other benefits members receive from the Fund, which include:

- the oversight and governance of the Trustee, including ensuring the Fund is compliant with relevant legislation, and holding regular meetings to monitor the Fund and address any material issues that may impact members;
- the design of the Default arrangement and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services, such as the Fund website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded service level agreements.

As detailed in the earlier section covering the processing of core financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustee believes that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and expects this to lead to greater investment returns net of costs over time.
During the Fund Year the Trustee agreed to changes being made by L&G, as the investment manager for the Fund, to the Default arrangement that involved a greater level of explicit ESG integration and resulted in lower fees for members. The same changes were also made with respect of the Annuity Journey TDF and were implemented in June 2022. In addition, at the request of the Trustee, an externally facilitated assessment of the Board's effectiveness was undertaken during the Fund Year to aid the Trustee in exercising its responsibilities effectively.

Overall, the Trustee believes that the Fund offers sufficient quality of service to members, at reasonable value for money. The assessment contains both areas of strength and areas for improvement. Recognising that maintaining good value is an ongoing process, the Trustee aims to further improve value for members in the future through taking the following actions:

- Improving the at-retirement support for members including investigating the possibility and practicality of providing a post-retirement solution for members;
- Investigating the possibility of providing an online member portal so members can monitor the value of their pension pots and instigate investment switches online; and
- Looking to improve the self-select fund range by adding additional funds, including a multi-asset fund.

Trustee knowledge and understanding
The Trustee is required to maintain appropriate levels of knowledge and understanding to run the Fund effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including principles relating to the investment of occupational pension scheme assets, and pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers its training requirements to identify any knowledge gaps. It maintains a Trustee training log, in line with best practice, to assist with this assessment. The Trustee also receives quarterly updates on topical pension issues from its DC advisers. During the Fund Year the Trustee received training on a variety of topics, including but not limited to:

- Task Force on Climate Related Financial Disclosures (TCFD);
- Pensions regulation and case law; and
- UK and global economic risks.

In addition, individual Trustee board members regularly attend external conferences and participate in peer review exercises.

All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law), or an equivalent qualification. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Fund Year.

The Trustees ensure they are familiar with the Fund's Trust Deed and Rules, SIP and all other documents setting out the Trustee's current policies relating to the Fund as appropriate from time to time to ensure it has a good working knowledge of these documents. Further, the Trustee believe that it has sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil its duties as Trustee of the Fund.

Taking into account the knowledge and experience of the Trustee with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers (eg investment consultants, legal advisers), the Trustee believes that it is well placed to exercise its functions as Trustee of the Fund properly and effectively.

Clive Tolley ______________________________ Date: 13th July 2023

Signed by the Chair of Trustees of the Church Administrators Pension Fund

Statement of Trustee's Responsibilities

The Church of England Pensions Board is Trustee of the Church Administrators Pension Fund.

Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

Independent Auditor's report to the Trustee of the Church Administrators Pension Fund

Opinion

We have audited the financial statements of the Church Administrators Pension Fund ('the Scheme') for the year ended 31 December 2022 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or have no realistic alternative but to do so.

Independent Auditor's report to the Trustee of the Church Administrators Pension Fund (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the investment custodian and fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.
- Non-receipt of contributions due to the Scheme from the employers. This is addressed by testing contributions due are paid to the Scheme in accordance with the Schedule of Contributions agreed between the employers and the Trustee.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP

Crowe U.K. LLP
Statutory Auditor
London

Date: 17 July 2023

Fund Account for the year ended 31 December 2022

	Notes	Defined Contribution	Defined Benefit	**2022 Total**	Defined Contribution	Defined Benefit	**2021 Total**
		£000	£000	**£000**	£000	£000	**£000**
Contributions and other income							
Employer contributions	4	3,059	3,826	**6,885**	2,770	3,940	**6,710**
Employee contributions	4	853	71	**924**	882	99	**981**
Transfers in		111	-	**111**	213	-	**213**
Total contributions and other income		4,023	3,897	**7,920**	3,865	4,039	**7,904**
Benefits							
Benefits paid or payable	5	(197)	(4,275)	**(4,472)**	(33)	(4,057)	**(4,090)**
Transfers out	6	(1,444)	(2,010)	**(3,454)**	(1,205)	(133)	**(1,338)**
Administrative expenses	7	-	(735)	**(735)**	-	(652)	**(652)**
Total benefits and other expenses paid		(1,641)	(7,020)	**(8,661)**	(1,238)	(4,842)	**(6,080)**
Net additions (withdrawals) from dealings with members		2,382	(3,123)	**(741)**	2,627	(803)	**1,824**
Returns on investments							
Deposit interest		-	1	**1**	-	-	**-**
Change in market value of investments	8	(3,753)	(63,480)	**(67,233)**	3,668	13,158	**16,826**
Investment management expenses		-	(75)	**(75)**	-	(66)	**(66)**
Net returns on investments		(3,753)	(63,554)	**(67,307)**	3,668	13,092	**16,760**
Net (decrease)/increase in the fund		(1,371)	(66,677)	**(68,048)**	6,295	12,289	**18,584**
Opening net assets		37,576	168,648	**206,224**	31,281	156,359	**187,640**
Closing net assets		36,205	101,971	**138,176**	37,576	168,648	**206,224**

The notes 1 to 17 form part of these financial statements.

Statement of Net Assets available for benefits as at 31 December 2022

	Notes	Defined Contribution	Defined Benefit	**2022 Total**	Defined Contribution	Defined Benefit	**2021 Total**
		£000	£000	**£000**	£000	£000	**£000**
Investment assets							
Pooled investment vehicles (CEIFP)	8	-	24,596	**24,596**	-	68,608	**68,608**
Pooled investment vehicles (other)	8	36,035	76,007	**112,042**	37,475	99,976	**137,451**
Total investment assets		36,035	100,603	**136,638**	37,475	168,584	**206,059**
Current assets	9	718	3,673	**4,391**	395	2,391	**2,786**
Current liabilities	10	(548)	(2,305)	**(2,853)**	(294)	(2,327)	**(2,621)**
Net current assets		170	1,368	**1,538**	101	64	**165**
Total net assets available for benefits		36,205	101,971	**138,176**	37,576	168,648	**206,224**

The financial statements summarise the transactions of the Scheme and deal with the net assets available for benefits at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the defined benefit section of the Scheme, which does take into account such obligations, is described in the report on actuarial liabilities on page 5, and these financial statements should be read in conjunction with this report.

The notes 1 to 17 form part of these financial statements.

These financial statements were approved by the Trustee on 13 July 2023 and signed on its behalf by:

Clive Mather
Chairman of the Church of England Pensions Board

Notes to the financial statements

1. Legal status

The Church Administrators Pension Fund (the "Scheme") is an occupational pension scheme established under trust. The Scheme was established in 1985 under the provisions of Section 27 of the Clergy Pensions Measure 1961, to provide retirement benefits to staff of the General Synod and the Church of England Central Board of Finance (who transferred to the Archbishops' Council on its establishment in 1999), and subsequently most staff of the National Church Institutions.

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

There are two sections of the Scheme: a Defined Benefit section and a Defined Contribution section.

2. Basis of preparation

The individual financial statements of the Scheme have been prepared on a going concern basis in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes (2018)" (the "SORP").

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Contributions

Employer contributions, which consist of both normal and deficit contributions, are accounted for on the accruals basis in the payroll month to which they relate. Employer contributions towards supplementary pension payments are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, when received.

Employee contributions are accounted for on the accruals basis in the payroll month to which they relate. Employee contributions for AVCs are accounted for on the accruals basis, in the payroll month to which they relate. Employers contribute an element of matching AVC contributions.

Contributions made by employers to reimburse administration costs and levies payable by the Scheme are accounted for on an accruals basis and in accordance with the Schedule of Contributions.

Insurance claims for death in service claims are accounted for on the accruals basis on the date of death.

b) Benefits

Where members can choose whether to take their benefits as a full pension or a lump sum with reduced pension, retirement benefits are accounted for on the accruals basis on the later of the date of retirement and the date the option is exercised.

Pensions in payment are accounted for in the period to which they relate. Other benefits are accounted for on the accruals basis on the date of retirement, death or leaving the Scheme, as appropriate.

c) Transfers to/from other pension schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers, or payable to the pension schemes of new employers for members who have left the Scheme. They are accounted for on the accruals basis, which is generally when funds are transferred unless the trustee of the receiving scheme have agreed to accept the liability in advance of receipt of funds.

d) Administrative and other expenses

Administrative and investment management expenses are accounted for on the accruals basis.

e) Investment income and expenditure

Most of the Scheme's Defined Benefit investments are units in the Church of England Investment Fund for Pensions ("CEIFP"), which is an accumulation fund. The CEIFP's net investment income, after paying management and transaction fees is retained within the fund for reinvestment. The value of the Scheme's holding in CEIFP units consequently is affected by the change in market value of investments, comprising all profits and losses realised on sales of investments and unrealised changes in market value, income and expenditure.

The Scheme's Defined Contribution and AVC investments are also invested in accumulation funds, which do not pay out investment income.

Investment income

Income from cash and short term deposits is accounted for on the accruals basis. Income is shown gross of all withholding taxes, with irrecoverable taxes shown as a separate expense.

Investment expenditure

Transactions costs are included in the cost of purchases and sales proceeds. These include commissions, stamp duty and other fees.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Investment valuation

The Scheme values its units in the CEIFP at the unit prices for the pools, provided by the custodian Northern Trust. These prices are calculated using the number of units held and the fair value of the CEIFP's underlying investment assets and liabilities. Where separate bid and offer prices are available for the underlying investment assets and liabilities, the bid price is used for investment assets and offer prices for investment liabilities. Otherwise the closing single price or most recent transaction price is used.

The Scheme's Defined Contribution investments are valued based on prices provided by the investment managers.

Investment assets and liabilities are measured at fair value. Where an active market is unavailable, the Trustee adopts valuation techniques appropriate to the class of investments. The methods for determining fair value for the principal classes of investments are:

Pooled investment vehicles: Unitised investment vehicles which are not traded on an active market are estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation. The net asset value is determined by the fund manager by applying fair value principles to the underlying investments of the pooled arrangement.

The change in market value of investments recognised in the fund account during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

g) Foreign currencies

The Scheme's functional currency and presentational currency is pounds sterling.

4. Contributions and other income

Year ended 31 December 2022	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Employer contributions			
Normal	2,615	926	**3,541**
Deficit	-	2,400	**2,400**
AVC	444	-	**444**
Employer contributions for administration costs	-	500	**500**
Total employer contributions	3,059	3,826	**6,885**
Employee contributions			
Normal	-	49	**49**
AVC	853	22	**875**
Total employee contributions	853	71	**924**

Year ended 31 December 2021	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Employer contributions			
Normal	2,360	1,040	**3,400**
Deficit	-	2,400	**2,400**
AVC	410	-	**410**
Employer contributions for administration costs	-	500	**500**
Total employer contributions	2,770	3,940	**6,710**
Employee contributions			
Normal	-	45	**45**
AVC	882	54	**936**
Total employee contributions	882	99	**981**

The deficit contributions payable are £2,400,000 per annum from 1 January 2021 to 31 December 2023.

Notes to the financial statements (continued)

5. Benefits paid or payable

Year ended 31 December 2022	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Pensions	-	3,209	**3,209**
Commutations of pensions and lump sum	197	985	**1,182**
Lump sum death benefits	-	81	**81**
Total benefits paid	197	4,275	**4,472**

Year ended 31 December 2021	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Pensions	-	3,013	**3,013**
Commutations of pensions and lump sum	14	1,040	**1,054**
Lump sum death benefits	19	4	**23**
Total benefits paid	33	4,057	**4,090**

6. Transfers out

Year ended 31 December 2022	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Individual transfers out to other arrangements	1,444	2,010	**3,454**
Individual transfers out to other arrangements	1,444	2,010	**3,454**

Year ended 31 December 2021	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Individual transfers out to other arrangements	1,205	133	**1,338**
Individual transfers out to other arrangements	1,205	133	**1,338**

7. Administrative expenses

All costs relating to the administration of the Scheme are paid by the Board in the first instance and recovered from the Scheme by way of an administration charge. This covers professional fees, staff costs and shared service costs. A breakdown of the costs is shown below:

	2022	**2021**
	£000	**£000**
Actuarial fees	312	234
Audit fees	13	12
Pension levy	(44)	44
Investment services	12	49
Legal advice	12	43
Administration costs	443	311
VAT rebate	(13)	(41)
Total administrative expenses	735	652

Administrative expenses for both the Defined Benefit and the Defined Contribution sections are borne by the Defined Benefit section. The 2021 Pension Levy charge has been reversed in 2022, as this cost is now borne by the employer in line with the Schedule of Contributions. The VAT rebate is the Scheme's share of the VAT reclaimed by the Trustee on fees relating to the administration and investment activities carried out by the Trustee on behalf of the Schemes to which it acts as trustee.

8. Investments

The table below shows the movement in investments in the year:

Defined contribution:	At 1 January 2022	Purchases at cost	Sales proceeds	Change in market value	**At 31 December 2022**
	£000	£000	£000	£000	**£000**
Pooled investment vehicles	37,475	4,008	(1,695)	(3,753)	36,035
Total investments	**37,475**	4,008	(1,695)	(3,753)	**36,035**

The Defined Contribution section's holdings also include AVC investments. Defined Contribution investments are allocated to specific members.

Notes to the financial statements (continued)

8. Investments (continued)

The Defined Contribution section's holdings comprises the following funds:

	2022	**2021**
	£000	£000
Mixed	24,386	24,588
Equities	8,290	8,868
Bonds	1,980	2,817
Property	200	227
Cash	1,179	975
Total pooled investment vehicles	**36,035**	**37,475**

Defined benefit:	At 1 January 2022	Purchases at cost	Sales proceeds	Change in market value	**At 31 December 2022**
	£000	£000	£000	£000	**£000**
Pooled investment vehicles (CEIFP)					
Public equity pool	**22,916**	750	(15,387)	(2,514)	**5,765**
Diversified income pool	**12,640**	7,400	(15,550)	1,614	**6,104**
Listed credit pool	**30,255**	20,300	(29,400)	(8,468)	**12,687**
Liquidity pool	**2,797**	31,987	(34,751)	7	**40**
Total pooled investment vehicles	**68,608**	**60,437**	**(95,088)**	**(9,361)**	**24,596**
Pooled investment vehicles (other)					
Bonds	**81,675**	37,926	(12,589)	(54,119)	**52,893**
Cash	**18,301**	37,587	(32,774)	-	**23,114**
Total LDI investments	**99,976**	**75,513**	**(45,363)**	**(54,119)**	**76,007**
Total investments	**168,584**	**135,950**	**(140,451)**	**(63,480)**	**100,603**

The Trustees have been following a 'trigger based' strategy to manage the relative weighting to return seeking and liability matching investments within the scheme. As a result of relative movements in equity and fixed income assets a rebalancing was undertaken towards the end of August to 'de-risk' the CAPF by lowering the allocation to the public equity pool and increase the weighting to listed credit and LDI.

The Scheme did not directly incur transaction costs. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustees to quantify such indirect transaction costs. Custody charges are negligible. The Church of England Investment Fund for Pensions ("CEIFP") is a pooled investment vehicle between three pension schemes of which the Church of England Pensions Board is Trustee. See Appendix 2 for detail about the CEIFP.

Significant movements in the assets underlying the pooled investment vehicles in the CEIFP are disclosed in the CEIFP accounts which are appended to the scheme's accounts. In summary, the reduction in equity allocation led to a further consolidation of the equity managers that were employed in the equity pool within the CEIFP, with the termination of the emerging market equity mandate with GW&K and the small cap equity mandate with Arrowstreet. Proceeds were used to meet margin and collateral requirements for our FX hedges and LDI portfolios, fund investments in the listed buy and maintain credit portfolio and to help transition the LDI portfolios with BlackRock. Additional commitments were also made into new infrastructure funds in the Diversified Income pool in the CEIFP, with existing infrastructure equity partners Igneo (formerly First State) and Antin.

Notes to the financial statements (continued)

9. Current assets

At 31 December 2022	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Debtors			
Other	718	2,194	**2,912**
Total debtors	718	2,194	**2,912**
Cash	-	1,479	**1,479**
Total current assets	718	3,673	**4,391**

At 31 December 2021	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Debtors			
Other	12	1,888	**1,900**
Total debtors	12	1,888	**1,900**
Cash	383	503	**886**
Total current assets	395	2,391	**2,786**

Defined contribution current assets are not allocated to members and arise due to timing differences between event dates, receipt and payment dates. Amounts owed from the Trustee represent money charged by the Board in advance towards the administrative expenses the Board incurs on the Scheme's behalf (see note 7).

10. Current liabilities

At 31 December 2022	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Creditors			
Tax payable – PAYE and NI	-	7	**7**
Other	548	2,298	**2,846**
Total creditors	548	2,305	**2,853**
Cash	-	-	**-**
Total current liabilities	548	**2,305**	**2,853**

At 31 December 2021	Defined Contribution	Defined Benefit	**Total**
	£000	£000	**£000**
Creditors			
Tax payable – PAYE and NI	-	106	**106**
Other	294	2,221	**2,515**
Total creditors	294	2,327	**2,621**
Cash	-	-	**-**
Total current liabilities	294	2,327	**2,621**

Defined contribution current liabilities are not allocated to members and arise due to timing differences between event dates, receipt and payment dates.

11. Fair value of investments

The fair value of investments has been determined using the following hierarchy:

Level	**Description**
1	Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
2	Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
3	Inputs are unobservable, i.e. for which market data is unavailable.

The Scheme's investment assets and liabilities have been included at fair value within these levels as follows. The CEIFP's fair value hierarchy is that of the underlying assets held by the Scheme.

Notes to the financial statements (continued)

11. Fair value of investments (continued)

Defined contribution:

At 31 December 2022	**1**	**2**	**3**	**Total**
	£000	**£000**	**£000**	**£000**
Pooled investment vehicles	1,179	34,856	-	**36,035**
Total investments	**1,179**	**34,856**	-	**36,035**

At 31 December 2021	**1**	**2**	**3**	**Total**
	£000	**£000**	**£000**	**£000**
Pooled investment vehicles	975	36,500	-	**37,475**
Total investments	**975**	**36,500**	-	**37,475**

Defined benefit:

At 31 December 2022	**1**	**2**	**3**	**Total**
	£000	**£000**	**£000**	**£000**
Pooled investment vehicles (CEIFP)	6,444	12,943	5,209	**24,596**
Pooled investment vehicles (other)	-	76,007	-	**76,007**
AVC investments	-	-	-	**-**
Total investments	6,444	88,950	5,209	**100,603**

At 31 December 2021	**1**	**2**	**3**	**Total**
	£000	**£000**	**£000**	**£000**
Pooled investment vehicles (CEIFP)	26,802	30,768	11,038	**68,608**
Pooled investment vehicles (bonds)	-	99,976	-	**99,976**
AVC investments	-	-	-	**-**
Total investments	26,802	130,744	11,038	**168,584**

12. Investment risk disclosures

The investment objective of the Scheme is to maintain an investment portfolio with appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The Trustee sets the investment strategy for the Scheme as detailed in the Statement of Investment Principles (SIP).

The table below summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Market risk			**Total**	**Total**
		Currency	Interest rate	Other price	**2022**	**2021**
					£000	**£000**
Defined Contribution section						
Pooled investment vehicles (mixed investment)	●	◑	●	●	**24,387**	**24,588**
Pooled investment vehicles (equities)	○	◑	○	●	**8,290**	**8,868**
Pooled investment vehicles (bonds)	●	◑	●	○	**1,979**	**2,817**
Pooled investment vehicles (property)	◑	◑	○	●	**200**	**227**
Pooled investment vehicles (cash)	●	◑	○	○	**1,179**	**975**
Total Defined Contribution section					**36,035**	**37,475**
Defined Benefit section						
Pooled investment vehicles: CEIFP	(see Investment Risks for the CEIPF in Appendix 2)				**24,596**	**68,608**
Pooled investment vehicles (other)	●	◑	●	◑	**76,007**	**99,976**
AVCs	(not considered significant in relation to overall Scheme risks)				**-**	**-**
Total Defined Benefit section					**100,603**	**168,584**

In the table above, the risk noted affects the asset class [●] significantly, [◑] partially or [○] hardly / not at all.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described below which is determined after taking advice from professional investment advisors. The Trustee manages the Scheme's investment risks, including credit

Notes to the financial statements (continued)

12. Investment risk disclosures (continued)

and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives for its directly held investments and through the CEIFP for its pooled CEIFP investments, which are described in Appendix 2.

These investment objectives and risk limits for directly held investments are implemented through the investment management agreement in place with the Scheme's investment manager. The agreement sets out the guidelines for the underlying investments held and the day to day management is the responsibility of the manager, including direct management of credit and market risks.

The Trustee monitors the investment manager through day to day monitoring of the portfolio, quarterly written updates from the manager and annual meetings. In addition, the Trustee performs due diligence procedures before taking on a new investment manager and the Trustee's Investment Consultant also independently assesses and monitors the fund managers.

The AVC investments are not considered significant in relation to the overall investments of the Scheme.

Defined Benefit section

Investment strategy

The investment objective of the Defined Benefit section is to maintain a portfolio of assets to generate income and capital growth, which together with new contributions from members and their employers, will meet future pension benefits as they become liable. The Defined Benefit section was closed to new members in 2006.

The Trustee therefore has a long term objective for the Scheme to be fully funded on a basis that incorporates gradual de-risking from the current strategy, to reduce the reliance on the Scheme's sponsors for additional contributions. The Trustee currently targets 30 June 2025 for reaching full funding.

Most of the liability matching investments are held in a separate LDI account, which is constructed to match future expected beneficiary payments. A small proportion of the liability matching investments remain in the CEIFP. All of the return seeking investments continue to be held wholly within the CEIFP. The investment risks faced by the CEIFP are described in Appendix 2, Note 10.

Credit Risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The section is subject to credit risk through its investment in a pooled investment vehicle gilt fund and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicle.

	2022	**2021**
	£000	£000
Pooled investment vehicles (bonds)	76,007	99,976
Total investments exposed to credit risk	76,007	99,976

The section's holdings in pooled investment vehicles are unrated, although 100% of the underlying investments are AA rated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors the investment managers through assessing investment performance, as reported by the custodian, and meeting with the manager annually.

A summary of pooled investment vehicles by type of arrangement is as follows:

	Defined benefit £000	**Defined contribution £000**	**2022 £000**	**Defined benefit £000**	**Defined contribution £000**	**2021 £000**
Common investment fund	24,596	-	**24,596**	68,608	-	**68,608**
With-profits funds	-	-	**-**	-	-	**-**
Domestic commingled fund	76,007	-	**76,007**	99,976	-	**99,976**
Unit-linked life insurance	-	36,035	**36,035**	-	37,475	**37,475**
Other	-	-	**-**	-	-	**-**
Total pooled investment vehicles	**100,603**	**36,035**	**136,638**	**168,584**	**37,475**	**206,059**

Cash is held with financial institutions which are at least investment grade credit rated.

Notes to the financial statements (continued)

12. Investment risk disclosures (continued)

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which at the time of purchased are rated at least investment grade.

Currency Risk
Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

The section has limited exposure to currency risk as the Liability Driven Investment is largely denominated in Sterling. However, the currency risk associated with some of the residual growth and income assets is mitigated in part by foreign exchange hedging arrangements.

Interest rate risk
The section is subject to interest rate risk due to its investment its bond holdings in the Listed Credit pool in the CEIFP and Liability Driven Investment (LDI) portfolio. If interest rates and bond yields fall, the market value of the bonds will rise, while if interest rates rise the market values of bonds will fall. Changes in interest rates can also influence the value of the actuarial value of the liabilities of the schemes. The increase in value of bonds that arises from a fall in bond yields will often help to 'match' the increase in actuarial liabilities arising from a fall in discount rate. Similarly, if interest rates rise the values of the bonds will fall (as they did in 2022), this will often match the decline in the actuarial liabilities because of an increase in discount rate being applied to the liabilities.

As we have noted in the Trustee report, UK Gilt yields rose sharply at the end of September on market concerns over the scale of unfunded tax cuts announced during the UK government mini-fiscal statement. The scale and speed of the rise in Gilt yields between 23-to-27 September 2022 caused many pension funds to have to sell investments in order to meet the collateral requirements of the LDI strategies that they were employing, which led in turn to yields rising further and further sales of Gilts. Although the scheme did not have to take such extraordinary measures to meet the collateral requirements, the manager of the levered pooled fund did decide to reduce the leverage in some pools within the LDI portfolio held by the CAPF. While the external manager was acting with the best interest of the scheme and was within their rights to do so, this had a modest detrimental effect compared to the scheme's benchmarks. The Pension Regulator (TPR) has since announced new guidance measures for such LDI strategies, and the Trustees will continue to adopt a prudent approach in the LDI strategies it employs to ensure that these requirements continue to be met.

Defined Contribution section

Investment strategy
The Trustee's objective is to make an appropriate range of investment options available to members, which are designed to generate income and capital growth, which together with new contributions from members and their employers, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product).

The Trustee has investment management agreements in place with Legal and General to manage the Defined Contribution section investments. A variety of funds are offered to members who can select an investment strategy depending on their personal risk appetite. The funds, managed by Legal and General include equities, bond interest, and other (including property and cash).

Credit Risk
The section's holdings in pooled investment vehicles are not credit rated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors the investment managers through assessing investment performance, as reported by the custodian, and meeting with the investment manager annually.

Currency risk
The section is subject to currency risk because some of the underlying funds are held in overseas markets. The Trustee decides not to actively manage this risk but 75% of the currency risk of the equity default investment fund is hedged back to sterling by the investment manager. The other funds with currency exposure are unhedged.

Other price risk
The pooled investment vehicles are subject to price risk which principally relates to indirect equity holdings, equity futures and investment properties. The Trustee manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

13. Concentration of investments

The following investments account for more than 5% of the Scheme's net assets at the year end:

		2022		2021
	£000	**%**	**£000**	**%**
Defined Benefit section:				
Aquila Life over 5 years Index Linked Fund	76,007	55.3	99,976	53.3
CEIFP listed credit pool	12,687	9.2	30,255	16.1
CEIFP public equity pool	-	-	22,916	12.2
CEIFP diversified income pool	-	-	12,640	6.7

The Blackrock managed *Aquila Life over 5 years Index Linked Fund* is registered in the UK.

14. Employer related investments

There were no employer-related investments during the year.

15. Additional voluntary contributions (AVC) investments

AVCs are paid by members into the Church Workers Pension Fund – Pension Builder Classic section. AVCs for members purchasing Added Years are paid directly into the CAPF Defined Benefit section and are not separately distinguishable.

AVCs by members of the Defined Contribution section are co-invested with other Defined Contribution assets with Legal and General Investment Management and are not separately distinguishable.

16. Related party transactions

One Board member (2021: one) who has retired from service under the Scheme is in receipt of a pension on normal terms.

As disclosed in notes 9 and 10, £Nil is owed by the Scheme to the Trustee (2021: £Nil owed by the Scheme to the Trustee), representing money charged by the Board towards the administrative expenses the Board incurs on the Scheme's behalf (see note 7).

17. Guaranteed Minimum Pension equalisation

In October 2018, the High Court determined that Guaranteed Minimum Pension benefits provided to members who had contracted out of the State Earnings Related Pension Scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. Additionally, in November 2020, the High Court determined that Guaranteed Minimum Pension shortfalls also apply to past transfers. The Trustee is now reviewing, with their advisors, the implication of these rulings on the Scheme and the equalisation of guaranteed minimum pensions between men and women in the context of the rules of the Scheme and the value of any liability. When this review is finalised and any liability quantified, members will receive further communication and any impact on financial reporting will be considered by the Trustee. The Trustee has estimated the total cost of equalisation to be £0.8m, although this estimate covers both amounts underpaid in previous periods and the future cost of providing any uplift. The financial statements do not include a liability due to the immateriality of the total estimated cost of equalisation.

Independent Auditors' statement about contributions to the Trustee of the Church Administrators Pension Fund

Statement about contributions

Opinion
In our opinion, the contributions required by the schedules of contributions for the Scheme year ended 31 December 2022 as reported in the Church Administrators Pension Fund's summary of contributions have, in all material respects, been paid in accordance with the schedule of contributions certified by the Scheme Actuary on 29 January 2021.

We have examined the Church Administrators Pension Fund's summary of contributions for the Scheme year ended 31 December 2022 which is set out on the following page.

Basis for opinion
Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedules of contributions and the timing of those payments.

Responsibilities for the statement about contributions

Responsibilities of the Trustee in respect of contributions
As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by employers in accordance with relevant requirements.

Auditors' responsibilities in respect of the statement about contributions
It is our responsibility to provide a statement about contributions and to report our opinion to you.

Use of this report
This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Crowe U.K. LLP

Crowe U.K. LLP
Statutory Auditor
London
17 July 2023

Summary of Contributions for the year ended 31 December 2022

During the year, the contributions payable by the employers and the employees were as follows:

	Employer contributions	Employee contributions	Total
Contributions required by the schedules of contributions	**£000**	**£000**	**£000**
Defined Contribution – normal	2,615	-	**2,615**
Defined Contribution - AVC	444	853	**1,297**
Defined Benefit – normal	926	49	**975**
Defined Benefit – deficit	2,400	-	**2,400**
Defined Benefit – for administration costs	500	-	**500**
Total contributions required by the schedules of contributions	6,885	902	**7,787**
Other contributions			
Defined benefit - AVC	-	22	**22**
Total other contributions	-	22	**22**
Total contributions	6,885	924	**7,809**

This summary of contributions has been prepared by, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedule of Contributions certified by the Scheme Actuary on 29 January 2021 in respect of the Scheme year ended 31 December 2022. The Scheme Auditor reports on contributions payable under the Schedule in the Auditors' Statement about Contributions.

Approved by the Trustee of the Church Administrators Pensions Fund and signed on its behalf by:

Clive Mather
Chairman
13 July 2023

Church Administrators Pension Fund

Adequacy of rates of contribution

Actuary's certification of schedule of contributions

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Church Administrators Pension Fund**

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2019 to be met by the end of the period specified in the recovery plan dated 29 January 2021.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 29 January 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature: .... **Date:** 29 January 2021

Name: Aaron Punwani **Qualification:** FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

Name of employer:
Lane Clark & Peacock LLP

Church Administrators Pension Fund

Statement of Investment Principles

1. Introduction

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

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

It has two sections:

Defined Benefit section (CAPF DB) - for those who joined before 1 July 2006

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

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

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

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

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

2. Objectives

For the Defined Benefit section

The Trustee is responsible for the stewardship of the Scheme's assets. It has three main objectives in relation to the defined benefit section (the "DB Section") of the Scheme, which are to ensure that:

(1) All beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme.
(2) There are sufficient assets to meet the Scheme's liabilities as they fall due, and
(3) Through the process of meeting the Scheme's liabilities that the Scheme's investments do not work against beneficiaries' interests and the world into which they will retire.

The Trustee therefore has a long-term objective for the DB Section of the Scheme to be fully funded on a basis that incorporates gradual de-risking from the current strategy to reduce the reliance on the Scheme's sponsors for additional contributions. The current recovery plan is due to end 31 December 2023 and the Trustee is targeting 31 December 2030 for reaching full funding on a de-risked basis.

For the Defined Contribution section

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

(1) to provide a range of investment funds and de-risking options, that enable members to fulfil their retirement needs and ambitions; and
(2) to provide a prudent default arrangement for those that do not wish to make their own investment choices under the Scheme.

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

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

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

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

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

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

For members further away from target retirement, assets are invested in the "Higher growth" stage which has a higher allocation to equities and other return seeking assets than other parts of the strategy. There is a small risk reduction as members get closer to retirement, with the "Steady growth" phase taking full effect as members are 30 years before target retirement. The Steady growth phase also has a high allocation to equity and other return seeking assets, but slightly less than the Higher growth phase.

(2) To provide a strategy that reduces investment risk relative to the benefits members are likely to take at retirement, as members approach retirement.

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

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

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

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

(1) The default option manages investment risks through a diversified strategic asset allocation consisting of different types of traditional assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. More detail on how the Trustee measures and manages risk for the Scheme as a whole, which is consistent with the default, is provided in the risk section.

(2) In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns.

(3) The Trustee considers both the kinds of investments to be held and the balance of investments in the default option. This includes the characteristics of particular asset classes and the balance between the use of active and passive investments where appropriate.

(4) Assets in the default option are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are investment vehicles which are managed by an investment manager. The Trustee is comfortable with a target date fund strategy which is pre-built by Legal & General Investment Managers ("LGIM").

(5) Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity, and profitability of a member's portfolio as a whole. Assets are also invested mainly on regulated markets (and those that are not, are kept to prudent levels).

(6) Members do not have to take their retirement benefits in line with those targeted by the default option: the target benefits are merely used to determine the investment strategy held pre-retirement and at the point of retirement.

(7) Assets in the default option are invested funds where the underlying fund is a long-term insurance contract. Members do not hold any assets directly. The insurance contracts have assets underlying them which generate the returns that are passed on to members who are invested in the funds.

(8) The Trustee's policies in relation to financially material considerations, non-financial matters, exercise of rights/engagement and arrangements with asset managers in relation to the default are consistent with the Trustee's policies in these areas for the scheme. These policies are in the sections titled "Ethical and Responsible Investment" and Investment management.

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

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

4. Investment Policy

For both the Defined Benefit and Defined Contribution sections

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

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

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

For the Defined Benefit section

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

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

For the Defined Contribution section

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

The Pensions Committee makes recommendations to the Trustee Board in relation to design and implementation of the Defined Contribution section, including scheme design, manager selection and asset allocation.

5. Investment Beliefs

For both the Defined Benefit and Defined Contribution sections

The Trustee has developed a set of investment beliefs, which underpin how the investments are made. The beliefs are set out in Appendix 1 to this statement. Environmental Social and Governance ("ESG") considerations are central to the Trustee's investment beliefs.

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

6. Investment management

For the Defined Benefit section

The Trustee operates a common investment fund, The Church of England Investment Fund for Pensions, (or "CEIFP"), comprising a Public Equity Pool, Diversified Growth Pool, Diversified Income Pool, Listed Credit and Liquidity Pool (together "the pools"). This investment vehicle allows the Board's pension schemes, including the CAPF, to pool their assets for greater efficiency and diversification than they would be able to achieve if investing on their own. The investment powers of the common investment fund are set out in the Schedule of Regulations of the CEIFP's Trust Deed and are in accordance with the investment powers of the Board as set out in the Church of England Pensions Measure 2018.

The CEIFP accounts for all the return seeking investments of the CAPF and some of its liability matching assets. The Scheme may from time to time have assets that are invested outside the common investment fund. In particular, these would be so called liability driven investment (LDI) assets that are held to back pensions (primarily with Gilts) and to hedge against inflation and changes in interest rates (with interest rate and inflation swaps and Gilt repurchase agreements (repos)).

The Scheme's investment managers are listed on the Pensions Board's website. The Scheme's Annual Report carries information on investment performance, asset allocation and the main investment decisions taken during the year.

The in-house investment team regularly meets with each of the Scheme's investment managers to discuss performance and other related matters (including climate change and other ESG topics) and reports its finding to the Trustee. As part of this process, the investment team will challenge decisions that appear inconsistent with the Scheme's stated objectives and/or policies.

Portfolio turnover costs and manager fees are monitored by the investment team, in absolute terms and relative to what might be reasonably expected given the underlying asset class and investment style of each investment manager and reported to the Trustee periodically.

For the Defined Contribution section

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

The Trustee's policy is to:

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

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

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

7. Aligning manager appointments with investment strategy

For both the Defined Benefit and Defined Contribution sections

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

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

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

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

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

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

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

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

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

The Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.

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

8. Types of investment

For the Defined Benefit section

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

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

The Trustee has set a long-term strategic asset allocation, based on its target to be fully funded on a gilts + 0.25% basis by the end of 2030, and established a series of funding level triggers to move from the current, to the long-term, asset allocation in stages. The Trustee's current policy is to keep the level of interest rate and inflation hedging broadly equal to the (Technical Provision) funding level by using leveraged LDI funds.

The Scheme may use synthetic instruments in a segregated fund (or via a pooled fund) to reduce risk or to improve operational efficiency. The Scheme's allocation to specific assets is shown in its Annual Report.

For the Defined Contribution section

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

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

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

The Trustee believes that the self-select options available offer varying risk/return profiles and risks are managed by the members. In designing the available fund range, the Trustee has explicitly considered the trade-off between risk and expected returns.

Members determine the balance between different kinds of investments they hold. This balance will determine the expected return on members' assets and should be related to the members' own risk appetite and tolerances.

For both the Defined Benefit and Defined Contribution sections

Investment managers are appointed based on their capabilities and the perceived likelihood of them meeting the Trustee's return and risk expectations. The manager selection process is designed to ensure that appointments are consistent with the Board's ethical, Environmental, Social and Governance ("ESG") policies. As part of this, the Trustee undertakes due diligence ahead of investing to ensure it is aware of the:

- Underlying assets held and how they will allocate between them;
- Risks associated with the underlying mix of assets and the steps the investment manager takes to mitigate them;
- Expected return targeted by the investment manager and details around realisation of the investment; and
- Impact of financial and non-financial factors, including those outlined in the Ethical and Responsible Investment section of this statement, on the investment over the long-term (and including how those matters are taken into account in the selection, retention and realisations of investments).

Should an investment manager make changes to any of these factors, the Trustee will assess the impact and (where no longer aligned) consider what action to take.

The Trustee seeks input from its investment consultant for their forward-looking assessment of the investment managers' abilities to meet their performance objectives over a full market cycle and an assessment of how environmental, social and governance factors are integrated into their investment processes. In addition, the investment team maintains its own independent ESG ratings for the directly appointed listed equity managers. These views assist the Trustee in its ongoing monitoring of the investment managers and are considered when making selection and retention decisions.

Where the Trustee invests via a pooled vehicle (rather than a segregated mandate), it accepts that it has limited ability to specify the investment guidelines, risk profile or return targets of an investment manager. Despite this, the Trustee believes that pooled vehicles can be identified that are aligned with its policies.

9. Realisation of investments

For the Defined Benefit section

The Defined Benefit section of the Scheme is closed to new members, but still open to the future accrual of benefits. The Scheme is cash-flow negative and so the Trustee ensures the Scheme assets are managed to provide sufficient liquidity to meet all benefit payments when they fall due. While, in practice the Scheme will have some highly liquid assets that can be sold at short notice, this is unlikely to be required for some years.

For the Defined Benefit section, the Trustee does not directly consider the views of beneficiaries with regard to the selection, retention and realisation of investments. However, its investment beliefs reflect the Christian identity and values of the Scheme's beneficiaries, and these are central to how the Scheme is invested, and the Trustee receives Advice from the Ethical Investment Advisory Group ("EIAG") (see our website for details of the ("EIAG") and its Terms of Reference) on Christian ethics and responsible investment.

For the Defined Contribution section

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

10. Ethical and responsible investment

For the Defined Benefit and Defined Contribution sections

The Trustee recognises that the beneficiaries and the sponsors of the Scheme are part of the Church of England and that the Scheme's investments should reflect that as far as possible without compromising its objectives. The Trustee wishes to exercise their responsibilities as asset owners fully.

The Trustee recognise climate change as a major financial, social, and ethical risk, and one that has potential to impact gravely on the financial well-being of the members of its schemes as well as their quality of life in retirement.

For the Defined Benefit section

The Trustee regularly receives advice on the ethical implication of investments from the EIAG of the Church of England, including ethical investment policies that are developed for all Church of England investors.

The Trustee also values engagement with companies over responsible and ethical investment issues, and it considers engagement as a more effective means of exercising its stewardship responsibilities than disinvestment in many situations. Company engagement is carried out and monitored for effective change by the Board's investment team. The Trustee regularly reviews the engagement and corporate governance activities of the investment team. The Trustee produces an annual Stewardship Report summarising its activities, which is available on the Board's website.

The investment team produces a list of restricted investments that reflects the ethical policies approved by the Trustee. Investment managers appointed by the Trustee are instructed to exclude these investments from their portfolios.

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

The 'Statement of Ethical Investment' recommended by the EIAG, which has been adopted by the Trustee, is adapted from time to time and can be found on the EIAG's website.

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

The Trustee intends that the Scheme should vote at all company meetings held by its investee companies. This is carried out by the investment team.

The Scheme, via the Church of England Pensions Board, is a signatory to the UNPRI and the Financial Reporting Council's UK Stewardship Code 2020. It is also a member of the IIGCC (Institutional Investors Group on Climate Change) and a co-founder of the Transition Pathway Initiative (TPI).

For the Defined Contribution section

The Trustee offers ethical and conventional funds, recognising that members may not wish to have their investments bound by ethics. It is not currently possible to offer funds that are run on the basis of Church of England ethics, but the ethical funds are regularly reviewed by the Trustee to ensure they are as close as can currently be found.

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

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

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

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

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

11. Risk

For the Defined Benefit section

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

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

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

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

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

For the Defined Contribution section

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

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

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

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

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

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

The Trustee has provided two journey strategies, one of which is the default option which invests in a way considered suitable for those members looking to take income drawdown in retirement.
Members may also self-select an annuity targeting journey, as well as a range self-select funds. The Trustee believes the range of options is suitable in meeting members' needs for different ways of taking benefits at retirement.

12. Additional voluntary contributions (AVCs)

For the Defined Benefit section

DB Section members' AVCs are invested in the Pension Builder Classic section of the Church Workers Pensions Fund.

For the Defined Contribution section

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

Signed: Clive Mather, Chair

Date: 29 September 2022

Appendix 1

Ethical Investment Approach of the Church of England Pensions Board

The Church of England has three National Investing Bodies (NIBs): the Church of England Pensions Board, the Church Commissioners for England and the CBF Church of England Funds. The NIBs are asset owners who invest on behalf of many beneficiaries. The way in which they invest forms part of the Church of England's witness and mission.

The NIBs receive Advice and support on ethical investment from the Church's Ethical Investment Advisory Group (EIAG). The purpose of the EIAG is to enable the NIBs to act as distinctively Christian – and Anglican – institutional investors. The EIAG develops ethical investment advice, and the NIBs develop investment policies based on this advice. EIAG advice and NIB policies are published on the Church of England website and implemented by the NIBs.

The EIAG consists of a representative of each NIB, and six independent members appointed by the Nominations Committee of the EIAG (which itself includes representatives of General Synod, the Archbishops' Council, the Mission and Public Affairs Council, the Church Investors Group and the NIBs).

The EIAG is supported by a small Secretariat hosted by the Pensions Board and jointly funded by the NIBs. Formal responsibility for all investment decisions rests solely with the NIBs. The Pensions Board has also resourced its own Responsible Investment function within and integrated into its Investment Team to implement the Board's approach to stewardship which embraces various stewardship strategies and priorities, engagement and investment exclusions.

Stewardship
The NIBs operate within the legal framework for investment by charities and pension funds. They owe certain fiduciary and other duties to their beneficiaries. Christian stewardship provides the context within which the NIBs invest, and informs the manner in which these duties are performed. The Pensions Board has published a Stewardship Report 2022 [available here] which has been submitted to the FRC, in accordance with the FRC Stewardship Code 2020. In 2021 and 2022 the FRC accepted the Board's Stewardship Reporting, and the Board has been a signatory to the Stewardship Code since the first cohort of signatories . The Code encourages institutional investors to act as good stewards of their investments through active ownership (monitoring, engagement and voting).

The NIBs are signatories to the United Nations Principles for Responsible Investment (PRI) under which institutional investors pledge to incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes, and to be active owners, across all asset classes.

The NIBs recognise climate change as a distinct ethical investment issue and invest in line with a climate change policy. The Board has also published a TCFD report [available here] for the Clergy scheme (CEFPS), which also contains relevant information for the Board's other schemes.

The Pensions Board has developed a Stewardship Implementation Framework that guides its active ownership practices, including its approach to engaging with asset managers.

Engagement
The Pensions Board's investment team includes ethical and responsible investment specialists, who undertake engagement with companies in which the Board is invested, including voting at shareholder meetings.

In general, the NIBs expect companies in which they invest to pay proper attention to human rights, responsible employment practices, sustainable environmental practice, fair treatment of customers and suppliers, sensitivity towards the communities in which they operate and best corporate governance practice (as outlined in the Statement of Ethical Investment). The engagement team engages with investee companies to seek improvements in standards in these areas, and other areas defined by the suite of ethical investment policies.

Policies adopted by the NIBs are listed on the EIAG website and they include specific policies on Executive Remuneration, Business and Engagement, Climate Change and Extractive Industries, among others.

Investment exclusions
The NIBs do not wish directly to profit from, or provide capital to, activities that are materially inconsistent with Christian values, and are also mindful of the danger of undermining the credibility, effectiveness and unity of the Church's witness were they to do so. A range of investment exclusions based on their ethical investment policies is therefore maintained and updated quarterly to reflect changes in markets.

Individual company engagements may exceptionally lead to a recommendation to Trustee Committees to implement a specific exclusion in any line of business on ethical grounds. Such recommendations and exclusions will normally only occur after sustained dialogue and if the company does not respond positively to concerns about its practices. In such cases the NIBs will determine individually whether to disinvest if they hold securities issued by the company. The NIBs expect a recognition of responsibility and action within a clear timescale to improve, rather than perfection.

Ethical Investment Approach of the National Church Institutions

Ethical Investment
The way the NIBs invest forms part of the Church of England's witness and mission and their ethical policies and practice are shaped by expert advice from the Church's Ethical Investment Advisory Group (EIAG).
When investing, and based on the advice of the EIAG, the Board applies exclusions to companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, and high interest rate lending. Details of all of the policies are available on the EIAG's webpages. As a result of the Climate Change Policy a screen has been introduced that excludes companies that derive more than 10% of their total revenue from mining thermal coal and the production of oil from tar sands.
However, ethical investment is also about in what and how the Board invests. It is for this reason the Pensions Board's approach is to:
• Take a long-term view.
• Select investment managers who are able to analyse and act on the environmental, social and governance issues relevant to their strategies.
• Act as good stewards of its investments including through voting at company general meetings and engaging actively with companies in which the Board invests.
• Promote ethical behaviour, corporate responsibility and sustainability in interactions with investment managers, companies and government.

Implementation of ethical investment policies
The Board has published its Implementation Statement in Appendix 3, showing how the Board has implemented the Scheme's Statement of Investment principles, including in respect to stewardship and engagement matters.

2022 highlights
The Board has published a full Stewardship Report for 2022 on its website, which is designed to provide an accessible account of the Board's stewardship activity, record significant votes, and the FRC Stewardship Code. A separate report aligned to the Taskforce on Climate Related Financial Disclosure (TCFD) has been published for the Clergy scheme (CEFPS, available here, which also contains detail relevant to the Board's other schemes. Key highlights in 2022 are shown below. For more details, please see the information provided in the Stewardship Report.

The Board has prioritised Climate Change and stewardship with the mining industry. Together with the Environment Agency's pension scheme, the London School of Economics and FTSE Russell, the Board established the Transition Pathway Initiative (TPI) in 2017, and the Board continues to act as Chair of TPI. The TPI provides a tool that allows asset owners and investors to monitor the public disclosures made by companies and to assess how they are aligned with the goals of the Paris climate agreement. The extraordinary success of the TPI continues. It has grown to be supported by 134 funds with over $50trn in assets under management (AUM). TPI provides data for the world's largest investor engagement initiative (Climate Action 100+), and is supporting the development of the ASCOR project (Assessing Sovereign Climate Opportunities and Risks), which the Board co-Chairs.

Within Europe we are active in the Institutional Investors Group on Climate Change (IIGCC) (we hold a Board seat), and the US$68trn backed Climate Action 100+ (CA100+). CA100+ is the global climate engagement initiative supported by 700 different investors that targets the world's 167 most carbon-intensive companies. This group of companies alone is estimated to represent some 80% of the industrial carbon emissions of companies listed on the global stock markets. The Board continues to lead engagements with target companies on behalf of the broader CA100+ coalition, in particular European automotive manufacturers.

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. Provisional indicators were published in September 2021 for consultation during 2022. The Net Zero Standard (published in April 2023) 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.

In January 2019, in response to the tragic failure of a tailings storage facility at Brumadinho, Brazil, that claimed the lives of 270 people, the Pensions Board issued a call for there to be a global standard and classification system for tailings facilities. Since 2019, the Board and the Council on Ethics of the Swedish Public Pension Funds have acted on behalf of the Principles for Responsible Investment (PRI) as co-convenors of a Global Tailings Review. In this, we have worked alongside the International Council on Mining and Metals (ICMM) and the UN Environment Programme. This Review commissioned the development of a Global Industry Standard on Tailings Management under an independent chair and expert panel. August 2020 saw the launch of a Global Industry Standard on Tailings Management at an online event attended by 2,000 participants. In 2022 and via corporate engagement, we secured commitments from 129 mining companies to adopt or scope the adoption of the GISTM. In 2022 we voted against the Chairs of any mining company that had not committed to adopting the GISTM or review its adoption. In relation to institutional support for the GISTM, in 2022 we partnered with the UN Environment Programme to employ a senior consultant and convene a multistakeholder advisory council to develop the Global Tailings Management Institute. During 2022, this group met a number of times and delivered its report on the proposed Global Tailings Management Institute, including its terms of reference, organisational objectives, operating models/plans, and funding. We hope and expect to report further progress on this topic in 2023, as we continue to work to drive safety across the mining industry.

Our Stewardship Report contains details of other engagements: on corporate climate lobbying, promoting diversity in the finance sector and wider economy, on transition finance for emerging economies, executive pay, among others.

The Board has outlined a range of future priorities of the stewardship team. This is not an exhaustive list of all of the planned engagement activities to be undertaken in the interests of our members (and their employers as scheme funders), but it outlines significant developments for the Board's work on stewardship.
For further details please see the Stewardship Report 2021 on the Board's website.
• Develop the first framework to assess government sovereign bonds on climate criteria through the ASCOR project
• Convene the Global Investor Commission on Mining 2030 to address issues that strategically challenge the mining sector and its social license, through a multistakeholder and consultative process.
• Establish, together with the UN, an independent Global Institute to support the implementation of the Global Industry Standard on Tailings Management.
• Advocate for and conduct climate engagement (for example, through CA100+) to address the demand side of the transition, focussing particularly on the European automotives sector.
• Undertake a 'deep dive' into systemic risk and systemic stewardship.
•Develop an engagement programme following the publication of Advice form the EIAG on Big Tech.

Appendix 2
The Church of England Investment Fund for Pensions

Annual Report and Financial Statements
31 December 2022

Contents

Trustee's report

The Church of England Pensions Board (the "Board"), as Trustee of The Church of England Investment Fund for Pensions ("CEIFP", or the "Fund") is pleased to present its annual report for the year ended 31 December 2022.

Scheme constitution and management

The Fund was originally established in 1985 as a common investment fund for pension schemes administered by the Trustee. It is not a pension scheme nor a corporate body in its own right, but is a vehicle to pool the investments of the Board's three pension schemes (the "schemes") in order to diversify the schemes' investments, particularly for the smaller schemes which would not be able to benefit from the breadth of investments available when the assets are pooled. It is a bare trust that operates under a Trust Deed between the member schemes:

- The Church of England Funded Pensions Scheme ("CEFPS");
- Church Workers Pension Fund ("CWPF"); and
- Church Administrators Pension Fund ("CAPF").

The Board as Trustee is responsible for setting the overall strategy and managing the schemes. The Board has established various committees to assist it in this responsibility.

The CEIFP has five pools: the public equity pool containing mostly listed equities, the diversified growth pool containing mostly property and private equity assets, the diversified income pool containing mostly private loans and infrastructure assets, the listed credit pool containing corporate bonds, and the liquidity pool containing cash.

Each pool has different risk and return characteristics, which enables each pension scheme to be able to invest in the pools in proportions that match its maturity and cash flow needs.

Unitisation

The pools are unitised, where each investing pension scheme is allocated a number of units, according to the amount it has invested. The number of units and value of the units is recalculated on a monthly basis to reflect the changing fair value of the underlying net assets, and the investment or disinvestment of each scheme.

Commentary on each scheme's strategy in holding different proportions of return seeking and liability matching units can be found in their respective annual reports.

Commentary on the performance of these pools is set out in this report. Further information on investment strategy and risk is shown in the notes to the financial statements.

Financial developments

If 2021 was marked by high returns across most markets and asset classes, 2022 could not have been more of a contrast. It was always going to be a challenging market environment, as governments and central banks removed their support to pandemic afflicted economies, but the Russian invasion of Ukraine and the resulting energy crisis added to inflationary pressures and led to a marked increase in interest rates in most major economies. This had an adverse impact on equity markets and fixed income and credit markets, providing few places where investors could make positive returns.

Although the schemes Liability Driven Investment (LDI) portfolios are actually held outside the CEIFP, the UK government 'Gilt' edged securities that the LDI portfolios were invested in were one of the worst performing asset classes in headline terms in 2022. This is because as the yields on these 'Gilt' edge securities rose sharply, in response to the crisis in confidence sparked by the UK mini fiscal statement in September 2022, the value of these Gilt edged securities fell sharply. While this has reduced the market value of the schemes' gilt holdings, scheme liabilities (or the lifetime cost of paying pensions) are in large part measured with reference to these gilt yields. The rise in gilt yields reduces the expected future cost of providing pensions, helping with funding levels. As the schemes mature, with more pensions in payment, these funding levels become a very important measure of scheme security.

Market sentiment continues to be dominated by the outlook for inflation and whether central banks will have to raise interest rates to a level that could ultimately lead to a global recession. Early indications that inflation may have peaked, an end of China's zero-COVID policy and bounce in both the local and broader Asian economies, have provided some encouraging signs to the start of 2023 that such a recession may yet be avoided. However, geopolitical uncertainties remain and predicting the near-term performance of markets remains as difficult as ever.

This is why we invest for the long-term and hold a well-diversified portfolio. This approach to investment and strong and sustained returns over time have driven improvements in the funding level of the pension schemes.

Strategic Asset Allocation and Composition of the Church of England Investment Fund for Pensions (CEIFP)

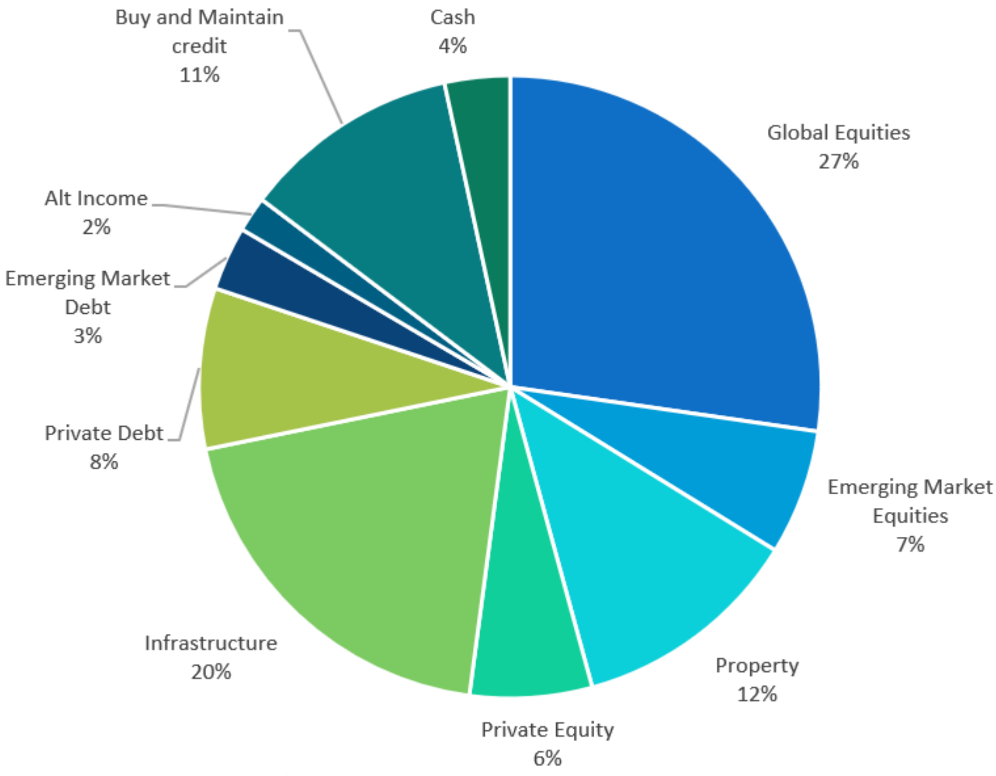
We pool most of the individual pension scheme assets for investment purposes in the CEIFP. This allows our smaller schemes to access economies of scale and investment opportunities that might not be available to them otherwise.

The key exception to this is the Liability Driven Investment (LDI) portfolios for each of the schemes (which sit outside of the CEIFP) and allow the schemes to take explicit account of the maturity and interest and inflation sensitivity of their specific liability profiles.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Fund's investments and considers them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

Total Assets in the CEIFP (excluding-LDI holdings)

The chart below shows how our assets were invested in the CEIFP at the end of 2022.



Strong and sustained returns over time and the recent increase in UK Gilts yields, have driven improvements in the funding level of our pension schemes. As a result, through 2021 and 2022, we have progressively reallocated investments away from so called 'growth assets' like developing and emerging equities into alternative, diversified and traditionally less volatile assets, with a focus on delivering income streams more closely 'matching' the future expected flow of pension payments.

The reduction in public equity investments has allowed us to further simplify consolidate the number of assets managers we work with, delivering recurring cost savings to members and employers (who bear the cost of scheme administration). At the end of 2022, the Fund's assets within the CEIFP were managed by 18 investment managers (having terminated the emerging market equity mandate with GW&K in January 2022 and the smaller company equity mandate with Arrowstreet Capital in May 2022).

Fund manager	**Description**
Antin Infrastructure Partners	Pooled infrastructure fund
Arrowstreet Capital (Until May 2022)	Small company equities
Audax Group	Portfolio of private loans in the US
Basalt Infrastructure Partners	Pooled infrastructure fund
Blackstone	Alternative income
Cambridge Associates	Private Equity
CBRE Global Investors	Property unit trusts
Colchester Global Investors	Emerging market debt
DBL Partners	Venture Capital
DIF Management	Pooled infrastructure fund
EQT Infrastructure Partners	Pooled infrastructure fund
Igneo (formerly First Sentier)	Pooled infrastructure fund
Generation Investment Management LLP	Global equities
GW&K (Until January 2022)	Emerging market equities
H.I.G Capital LLC	Portfolio of private loans in the US
I Squared Global Capital	Pooled infrastructure fund
Insight	High quality corporate bonds
KKR & Co. L.P.	Pooled infrastructure fund
Legal & General Investment Management	Global equities passively tracking the FTSE TPI Climate Transition Index
T Rowe Price	Emerging market equities

Investment Performance

Total assets of the three schemes for which the Church of England Pension Board (CEPB) is trustee returned -13.2%, while the assets within the CEIFP (which excludes the Liability Driven Investment portfolio) returned -4.0% in 2022.

The longer-term annualised returns to 31 December 2022 for each of the broad asset classes are set out below. All figures are net of fund management fees and asset class returns are shown in Sterling terms.

Investment returns to 31st December 2022	£m	3 Mos.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	ITD
CEPB Total Assets New	**2,903**	**-1.1**	**-13.2**	**2.3**	**3.8**	**7.6**	**7.6**
CEPB Total Assets ex LDI	**2,304**	**0.4**	**-4.0**	**5.9**	**6.0**	**8.9**	**8.1**
Public Equity Pool	829	3.7	-13.3	4.4	5.8	9.6	8.4
Global Equities	679	2.1	-9.7	6.4	7.6	11.6	8.5
Emerging Market Equities	150	3.8	-8.7	-1.4	0.7	5.2	5.3
Diversified Growth Pool	422	-7.6	2.9	7.2	6.9	8.6	4.2
Property	276	-10.8	6.6	6.9	6.4	8.4	4.0
Private Equity	146	-6.4	4.8	9.0	--	--	0.9
Diversified Income Pool	765	-0.2	14.2	9.6	9.3	8.0	8.1
Infrastructure	454	-1.4	27.5	16.3	12.5	11.0	11.0
Private Debt	192	-6.5	14.6	6.3	7.6	--	5.8
Emerging Market Debt	76	1.2	7.0	-0.1	1.8	--	3.1
Alt Income Producing Assets	42	-7.1	1.9	-19.4	--	--	-19.6
Listed Credit Pool	211	6.4	-19.5	-5.7	-2.0	2.2	5.2
Liquidity Pool	78	1.3	1.9	0.3	-0.6	-0.9	0.1
Gilts & LDI Accounts	599	-6.8	-43.0	-11.2	--	--	-12.1

Fears that inflation and associated tightening in monetary policy could prompt a recession plagued markets for much of the year. This is largely reflected in the -13.3% decline in the public equity pool.

The impact of rising inflation, higher short-term rates and the crisis in confidence sparked by the UK mini fiscal statement in September, is most readily seen in the -43%, return on the Gilts and LDI accounts for 2022.

The global and UK developments outlined above also raised concern in the credit markets, and the rise in yields combined with a widening in credit spreads caused losses on the listed credit portfolio pool (-19.5%).

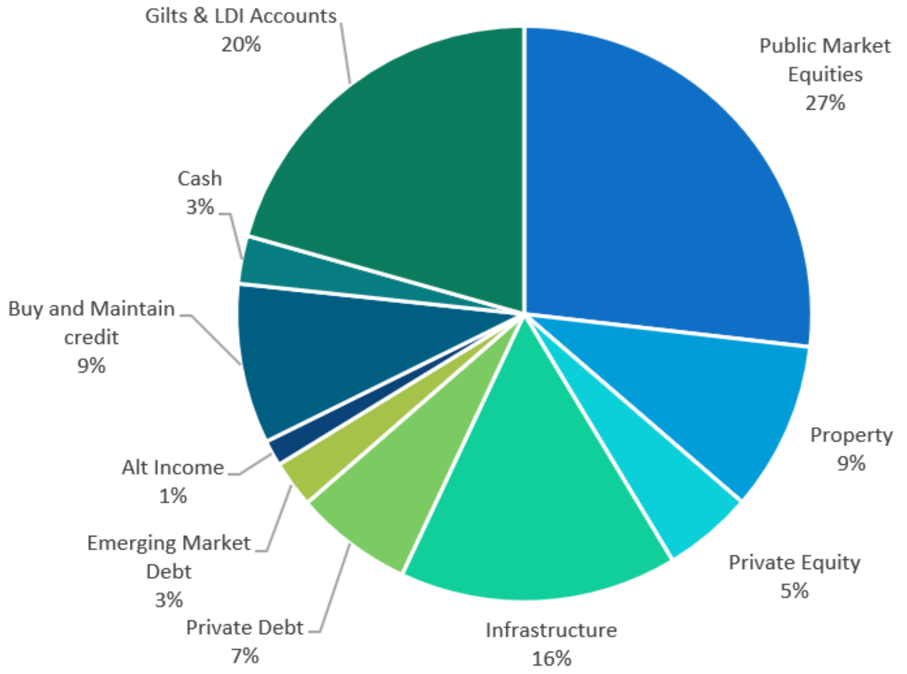
The property and private equity portfolios in the Diversified Growth (2.9%) and infrastructure, private debt and alternative income and credit portfolios in the Diversified Income portfolio (14.2%), fared better over the course of the year and provided an element of diversification to overall assets returns of the CEIFP.

Although returns have been somewhat disappointing, many fixed income markets have arguably moved to a point where we believe valuations are starting to look attractive. We have therefore taken the opportunity to reduce our market weighting to higher risk assets in the schemes in favour of potentially more stable return profile.

Over the course of the year, we made further investments in renewable energy, and green alternatives to fossil fuels. We also sought member views on how environmental, social and governance considerations are built into the range of investment options offered within the Defined Contribution funds used by the CAPF. We continue to look to move the assets that we hold in the portfolio to a more diversified and environmentally sustainable future.

Trustee's report (continued)

The chart below shows the distribution of the overall asset allocation for the total assets for which the Church of England Pensions Board is Trustee.



Investment management
The Trustee has delegated the responsibility for the management of investments to an Investment Committee, which is supported by professional in-house staff and external investment managers and advisors. The Trustee sets the investment strategy for the assets of the underlying schemes held within the CEIPF after taking advice from the Fund's Investment Advisor. The Trustee has put in place investment mandates with its investment managers which implement these strategies.

In accordance with Section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been prepared for each of the schemes participating in the CEIFP by the Trustee. These incorporate the investment strategy for each scheme and are supported by documents that set out how the investment strategy is implemented. Copies of the SIPs may be obtained from the contact details listed in Appendix 1. The investment risks and the strategies in place to mitigate them are described in the notes to the financial statements.

Management and custody of investments
The Trustee has appointed The Northern Trust Company Limited ("Northern Trust") to keep custody of the Fund's investments, other than pooled investment vehicles, where the manager makes its own arrangements for the custody of underlying investments.

Management charges
Each manager charges fees based on the value of the funds it is managing. In 2022 these fees (including those charged by Northern Trust as custodian) were £5.9m (2021: £6.9m). This equated to 0.26% (2021: 0.25%) of the average value of the funds under management. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles.

Approval
The Trustee's Report and Statement of Trustee's Responsibilities set out on page 6 were approved by the Trustee on 13 July 2023 and signed on its behalf by:

Clive Mather
Chairman

Statement of Trustee's Responsibilities

In respect of the financial statements

The Church of England Pensions Board is Trustee of The Church of England Investment Fund for Pensions ("CEIFP", or the "Fund").

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. The Trustee is responsible for ensuring that those financial statements:

- give a true and fair view of the financial transactions of the Fund during the year and of the amount and disposition at the end of the year of its assets and liabilities;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- comply with the requirements of the Trust Deed dated 18 September 1985 (as amended).

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Fund will continue as a going concern.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Independent Auditor's report to the Trustee of The Church of England Investment Fund for Pensions of the Church of England

Opinion

We have audited the financial statements of The Church of England Investment Fund for Pensions ("the Fund") for the year ended 31 December 2022 which comprise the statement of total return, the statement of changes in net assets attributable to unit holders, the statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 December 2022 and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Fund or have no realistic alternative but to do so.

Independent Auditors’ report to the Trustee of The Church of England Investment Fund for Pensions of the Church of England (continued)

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, agreement of transactions and balances to custodian records and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Fund. This is addressed by obtaining direct confirmation from the investment custodian and fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report

This report is made solely to the Trustee, as a body, in accordance with the Clergy Pensions Measure 1961 and the General Synod. Our audit work has been undertaken so that we might state those matters we are required in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP

Crowe U.K. LLP
Statutory Auditor
London 17 July 2023

Statement of total return for the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Change in market value of investments	6	(145,665)	310,771
Change in market value of investment cash and other investment balances	6	(18,242)	(13)
Total change in market value		(163,907)	310,758
Income	4	66,350	59,831
Expenses	5	(9,468)	(11,789)
Changes in net assets attributable to unit holders from investment activities		(107,025)	358,800

Statement of changes in net assets attributable to unit holders for the year ended 31 December 2022

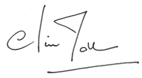
	Notes	2022 £000	2021 £000
Opening net assets attributable to unit holders		2,729,043	2,540,057
Amounts receivable on issue of units	11	909,022	513,469
Amounts payable on cancellation of units	11	(1,227,872)	(683,283)
Net assets before change from investment activities		2,410,193	2,370,243
Changes in net assets attributable to unit holders from investment activities	11	(107,025)	358,800
Closing net assets attributable to unit holders		2,303,168	2,729,043

Statement of net assets attributable to unit holders as at 31 December 2022

	Notes	2022 £000	2021 £000
Investment assets			
Equities	6	803,969	1,417,306
Bonds	6	270,758	174,820
Pooled investment vehicles	6	1,091,145	928,036
Derivative contracts	8	3,333	18,895
Other investments	6	320	172
Investment cash	6	134,534	182,620
Other investment balances	6	18,751	12,012
Total assets		2,322,810	2,733,861
Investment liabilities			
Derivative contracts	8	(17,417)	(1,776)
Investment cash	6	-	(13)
Other investment balances	6	(2,225)	(3,029)
Total investment liabilities		(19,642)	(4,818)
Total net assets attributable to unit holders	11	2,303,168	2,729,043
Participants' funds	11		
The Church of England Funded Pensions Scheme		1,975,029	2,159,654
The Church Workers Pensions Fund		303,544	500,781
The Church Administrators Pensions Fund		24,595	68,608
Total participants' funds		2,303,168	2,729,043

The notes 1 to 13 form part of these financial statements.

These financial statements were approved by the Trustee on 13 July 2023 and signed on its behalf by:



Clive Mather
Chairman

Notes to the financial statements

1. Legal status

The Church of England Investment Fund for Pensions ("CEIFP" or the "Fund") is not a pension scheme nor a corporate body in its own right. It was established in 1985 by the Church of England Pensions Board as a vehicle to pool the investments of the four pension schemes of which it is also Trustee, in order to diversify the schemes' investments, particularly for the smaller schemes which would not be able to benefit from the breadth of investments available when the assets are pooled.

2. Basis of preparation

The individual financial statements of the Fund have been prepared on a going concern basis in accordance Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (2018) (the "SORP") insofar as they relate to common investment funds.

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Income and expenditure

Income from equities and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/interest. Income from bonds, cash and short-term deposits is accounted for on the accruals basis and includes income bought and sold on purchases and sales of bonds. Income is shown gross of all withholding taxes, with irrecoverable taxes shown as a separate expense.

Where the Fund can separately identify investment managers' fees, these are accounted for on a cash basis. Fees on pooled funds are not separately identifiable and so are not shown within expenditure.

The change in market value of investments during the year comprises all profits and losses realised on sales of investments and unrealised changes in market value.

Transaction costs are included in the cost of purchases and sales proceeds. These include fees, commissions, stamp duty and other fees.

b) Investment valuation

Investment assets and liabilities are measured at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and offer prices for investment liabilities. Otherwise the closing single price or most recent transaction price is used.

Where an active market is unavailable, the Trustee adopts valuation techniques appropriate to the class of investments. The methods for determining fair value for the principal classes of investments are:

- **Equities**
  - Quoted equities which are trading on an active market are included at the quoted price which is usually bid price.
  - Unquoted equities are valued with reference to the latest dealing prices, valuations from reliable sources or net asset values.

- **Bonds** are included at the 'clean' price i.e., excluding any accrued income. Any accrued income is included in current assets.

- **Pooled investment vehicles** which are not traded on an active market have their fair value estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation. The net asset value is determined by the fund manager by applying fair value principles to the underlying investments of the pooled arrangement. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used. For investments in vehicles where the Fund's Trustee is the sole ultimate beneficial owner and which are held for the purpose of resale, no consolidated accounts have been prepared as the statutory framework for pension schemes financial reporting does not require consolidation.

- **Derivatives**
  - **Forward contracts** are valued based on the gain or loss that would arise if the outstanding contract was closed out at the year-end date by entering into an equal and opposite contract at that date.
  - **Futures contracts** are valued at the difference between exchange settlement prices and inception prices.

c) Foreign currencies

The Fund's functional currency and presentational currency is pounds sterling.

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in the market value of investments.

d) Unitisation

The pools are revalued at the end of each month. The fund value is allocated between the unit holders according to their net accumulated unit holdings. New units are allocated on receipt of cash from unit holders at the unit price at the end of the preceding month. Units are cancelled on withdrawal of cash by unit holders at the unit price at the end of the preceding month.

Notes to the financial statements (continued)

4 Income

	2022	2021
	£000	£000
Equities	24,866	27,525
Bonds	9,869	8,520
Pooled investment vehicles	29,504	23,674
Cash and cash equivalents	2,111	112
Total income	66,350	59,831

5 Expenses

	2022	2021
	£000	£000
Investment managers' fees	9,468	11,789
Total expenditure	9,468	11,789

The Fund bears investment management expenses charged by the investment managers and custodians. Administration costs (including external audit fees) incurred by the Church of England Pensions Board in relation to the CEIFP are borne by the member schemes and are included in the administration expenses in the schemes' own financial statements. The investment managers' fees that we pay are a combination of the amount of assets under management and, for a few managers, the performance fee that they can earn on the funds they manage.

6 Investments

	At 1 January	Purchases and derivative payments	Disposals and derivative receipts	Change in market value	At 31 December
	£000	£000	£000	£000	£000
Equities	1,417,306	518,204	(989,950)	(141,591)	803,969
Bonds	174,820	148,233	(27,133)	(25,162)	270,758
Pooled investment vehicles	928,036	202,021	(161,205)	122,293	1,091,145
Other investments	172	13,573	(14,168)	28	(395)
Net derivative contracts (note 8)	17,119	190,687	(120,658)	(101,233)	(14,085)
	2,537,453	1,072,718	(1,313,114)	(145,665)	2,151,392
Investment cash	182,607			(11,037)	134,535
Other investment balances	8,983			(7,205)	17,241
Total investments	2,729,043			(163,907)	2,303,168

Analysed between:		
Investment assets	2,733,861	2,322,810
Investment liabilities	(4,818)	(19,642)
Total investments	2,729,043	2,303,168

Other investment balances include the following balances

	2022	2021
	£000	£000
Accrued income	9,943	8,654
Pending trade sales	284	1,489
Pending trade purchases	(311)	(1,951)
Variation margin	7,325	791
Total other investment balances	17,241	8,983

During the year investments in the emerging market equity portfolio with GW&K were terminated for a total of £102.6m. The small cap equity mandate with Arrowstreet was also terminated for $203.2m. In addition, there were additional dis-investments from the LGIM equity portfolio as part of the de-risking strategy. Proceeds were used to meet margin and collateral requirements for our FX hedges and LDI portfolios, fund investments in the Listed Credit pool with Insight and LDI portfolios with BlackRock. Additional commitments of EUR100m each were made into new infrastructure funds with Igneo and Antin.

Notes to the financial statements (continued)

6 Investments (continued)

a) Transaction costs

Transaction costs are included in the costs of purchases and deducted from sales proceeds in the reconciliation above. Direct transaction costs incurred attributable to key asset classes are analysed as follows:

	2022			**2021**		
	Commission	Other charges	**Total**	Commission	Other charges	**Total**
	£000	£000	**£000**	£000	£000	**£000**
Equities	323	235	**558**	318	213	**531**
	323	235	**558**	318	213	**531**

Indirect transaction costs are also borne by the Fund through the bid-offer spread on pooled investment vehicles and charges made within these vehicles. It is not possible for the Trustee to quantify such indirect transaction costs.

b) Pooled investment vehicles

	2022	**2021**
	£000	£000
Equities	92,777	84,201
Property	259,186	242,386
Cash	13,074	12,476
Private equity	92,790	43,955
Infrastructure	440,890	377,092
Private debt	192,428	167,926
Total pooled investment vehicles	1,091,145	928,036

Private debt is the Fund's investment in the Thorney Island Limited Partnership (number LP017097), of which the Church of England Pensions Board is the sole Limited Partner as trustee for the Church of England Investment Fund for Pensions. A summary of the assets and liabilities of the Limited Partnership are below.

	2022	**2022**	**2021**	**2021**
	$000	**£000**	**$000**	**£000**
Investments	225,813	186,504	218,262	160,424
Current assets	20,584	17,000	20,847	15,323
Current liabilities	(13,410)	(11,076)	(10,641)	(7,821)
Total net assets	232,987	192,428	228,468	167,926

7 Investment analysis

Investments of over 5% of net assets

The Fund holds two investments of over 5% of net assets, representing 16.2% of net assets (2021: two assets representing 11.5% of net assets).

	2022	**2021**
	£000	£000
CBRE GIP GA Fund	180,518	145,855
Thorney Island Limited Partnership	192,428	167,926
Total	372,946	313,781

Employer related investments

There were no employer related investments as at 31 December 2022 (2021: none).

Notes to the financial statements (continued)

8 Derivatives

	2022			2021		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Futures – equities	-	(72)	**(72)**	104	(6)	**98**
Futures – bonds	563	(2,759)	**(2,196)**	49	(109)	**(60)**
Forward foreign currency contracts	2,769	(14,586)	**(11,817)**	18,742	(1,661)	**17,081**
Total derivatives	3,332	(17,417)	**(14,085)**	18,895	(1,776)	**17,119**

Objectives and policies for holding derivatives

The Trustee has authorised its investment managers to use derivative financial instruments in line with the investment strategy as outlined in the Trustee's report: *Futures are used where the Fund has high cash reserves and are measured against the strategic asset allocation. Futures are used to take short term exposures in markets or asset classes where it is more efficient than transacting in the underlying physical assets. Investment managers may take short or long positions to achieve their objectives*. Forwards are used to mitigate currency risk by hedging 50% of equities assets denominated in US Dollar, Japanese Yen and Euro. They are also used actively in the emerging market sovereign debt portfolio to enhance returns.

a) Futures

The Fund had open futures contracts at year end, as summarised below:

	2022			2021		
Type of future	***Exposure Value***	**Assets**	**Liabilities**	***Exposure Value***	**Assets**	**Liabilities**
	£000	£000	£000	*£000*	£000	£000
Equities futures: UK	-	-	-	*513*	7	-
Equities futures: Overseas	*2,563*	-	(72)	*5,398*	97	(6)
Total equities futures	***2,563***	**-**	**(72)**	***5,911***	**104**	**(6)**
Bonds: UK	*46,753*	-	(2,739)	*11,866*	-	(48)
Bonds: Overseas	*(61,510)*	563	(20)	*(9,817)*	49	(61)
Total bonds futures	***(14,757)***	**563**	**(2,759)**	***2,049***	**49**	**(109)**

All contracts have expiry dates between 8 March 2023 and 31 March 2023. Included within other investment balances is an asset of £7,325,000 (2021: £791,000) in respect of initial and variation margins arising on futures contract open at the year end.

b) Forwards foreign currency contracts

The Fund holds investments in a number of foreign currencies and its policy is to hedge within agreed limits, to offset the impact of foreign currency fluctuations.

At the end of the year, the Fund had the following open forward contracts in place:

Contract	**Nominal value**	**Assets at 31 December 2022**	**Liabilities at 31 December 2022**
		£000	**£000**
US Dollar			
Forward to buy US Dollars	$37,892,716/$18,709,250	361	(428)
Forward to sell US Dollars	$33,694,591/$808,944,311	700	(8,537)
Euros			
Forward to buy Euros	€3,364,193	31	-
Forward to sell Euros	€155,958,644	-	(4,330)
Japanese Yen			
Forward to buy Japanese Yen	¥159,043,473	40	-
Forward to sell Japanese Yen	¥3,196,918,303	-	(795)
Other currencies			
Forward to buy other currencies		1,637	-
Forward to sell other currencies		-	(496)
		2,769	(14,586)

All contracts had maturity dates falling between 3 January 2023 and 14 March 2023.

Notes to the financial statements (continued)

9 Fair value hierarchy

The fair value of investments has been determined using the following hierarchy:

Level 1	Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
Level 2	Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
Level 3	Inputs are unobservable, i.e., for which market data is unavailable

The Fund's investment assets and liabilities have been included at fair value within these levels as follows as at 31 December 2022:

Level	1	2	3	Total 2022
Investments	**£000**	**£000**	**£000**	**£000**
Equities	803,910	-	59	**803,969**
Bonds	-	270,758	-	**270,758**
Pooled investment vehicles	18,982	-	1,072,163	**1,091,145**
Other investments	-	(395)	-	**(395)**
Derivatives contracts	(2,268)	(11,817)	-	**(14,085)**
Investment cash	134,535	-	-	**134,535**
Other investment balances	9,943	7,298	-	**17,241**
Total investments	965,102	265,844	1,072,222	**2,303,168**

Analysed by pool:

Level	1	2	3	Total 2022
	£000	**£000**	**£000**	**£000**
Public equity pool	849,133	(4,810)	329	**844,652**
Diversified growth pool	47,636	(1,356)	383,749	**430,029**
Diversified income pool	55,616	65,796	687,378	**808,790**
Liquidity pool	9,600	-	51	**9,651**
Listed credit pool	3,117	206,609	320	**210,046**
Total investments	965,102	266,239	1,071,827	**2,303,168**

The Fund's investment assets and liabilities have been included at fair value within these levels as follows as at 31 December 2021:

Level	1	2	3	Total 2021
Investments	**£000**	**£000**	**£000**	**£000**
Equities	1,416,978	-	328	**1,417,306**
Bonds	-	174,820	-	**174,820**
Pooled investment vehicles	18,123	-	909,913	**928,036**
Other investments	-	-	172	**172**
Derivatives contracts	38	17,081	-	**17,119**
Investment cash	182,607	-	-	**182,607**
Other investment balances	8,654	329	-	**8,983**
Total investments	1,626,400	192,230	910,413	**2,729,043**

Analysed by pool:

Level	1	2	3	Total 2021
	£000	**£000**	**£000**	**£000**
Public equity pool	1,470,572	9,642	569	**1,480,783**
Diversified growth pool	35,708	1,789	321,187	**358,684**
Diversified income pool	13,920	74,726	588,447	**677,093**
Liquidity pool	102,610	-	88	**102,698**
Listed credit pool	3,590	106,073	122	**109,785**
Total investments	1,626,400	192,230	910,413	**2,729,043**

Infrastructure, Private debt and Hedge funds included in Level 3 are fair valued based on values estimated by underlying fund managers using accepted valuation methodologies and use of market information in the absence of observable market data.

Notes to the financial statements (continued)

10 Investment risk disclosures

The Trustee are responsible for determining the investment strategy and the investment strategy is established after taking advice from a professional investment advisor. The Fund has exposure to a number of investment risks because of the investments it makes to implement its investment strategy as described in the Trustee's Report. The Trustee manages investment risks, including credit and market risk, within agreed risk limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements that are put in place with the appointment of the Fund's investment managers.

The Trustee has investment management agreements in place with a range of managers, detailed in the professional advisors list in the Annual Report. The agreements set out the guidelines for the underlying investments held and the day to day management is the responsibility of the manager, including direct management of credit and market risks.

The Trustee monitors the investment managers through day to day monitoring of the portfolios and annual meetings. In addition, the Trustee performs due diligence procedures before taking on a new investment manager.

The Fund's investment pools are unitised. The proportion of units held by each member scheme is dependent on the individual requirements of each of the schemes. Investment risks are discussed in more detail in each Scheme's annual report and financial statements.

The table below summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Market risk			**Total**	**Total**
		Currency	Interest rate	Other price	**2022**	**2021**
					£000	**£000**
Equities	○	◑	○	●	803,969	1,417,306
Bonds	●	◑	●	○	270,758	174,820
Pooled investment vehicles	◑	◑	◑	◑	1,091,145[1]	928,036
Other investments (net)	●	◑	○	○	(395)	172
Derivatives contracts (net)	●	◑	◑	◑	(14,085)	17,119
Investment cash	●	◑	○	○	134,535	182,607
Other investment balances	●	◑	○	○	17,241	8,983
Total investments					2,303,168	2,729,043

In the table above, the risk noted affects the asset class [●] significantly, [◑] partially or [○] hardly / not at all.

[1] An analysis of Pooled Investment Vehicles is set out in Note 6

Notes to the financial statements (continued)

10. Investment risk disclosures (continued)

Credit Risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund is subject to credit risk through its investments in bonds, forward currency contracts, and cash balances. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

	2022	2021
	£000	£000
Bonds	270,758	174,820
Pooled investment vehicles	1,091,145	928,036
Derivatives: forwards	2,769	18,742
Investment cash	134,535	182,607
Total investments exposed to credit risk	1,499,207	1,304,205

The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.
Credit risk arising on bonds held directly is mitigated by investing in corporate bonds which at the time of purchase are rated at least investment grade. Cash is also held with financial institutions which have an investment grade credit rating.

The Trustee manages the associated risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by one issuer. Credit risk is mitigated on other investments by engaging with counterparties which are at least investment grade.

Credit risk arises on over the counter derivatives as they are not guaranteed by a regulated exchange and therefore the Fund is subject to risk of failure of the counterparty. All counterparties must be at least investment grade.

The Fund's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors the investment managers through assessing investment performance, as reported by the custodian, and meeting with the manager annually.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2022	2021
	£000	£000
Limited Partnerships	735,829	608,683
SICAVs (*)	13,074	12,476
Exchange Traded Funds	8,864	6,320
Cooperatief U.A (**)	72,093	56,043
FCP (**)	202,563	172,348
Property Authorised Investment Fund	6,320	7,198
Property Unit Trusts	25,169	30,059
Other funds	27,233	34,909
Total pooled investment vehicles	1,091,145	928,036

(*) A Société d'investissement à Capital Variable (SICAV) fund is an open-ended investment fund structure offered by European financial companies.

(**) A Cooperateif U.A is a Dutch Cooperative.

(***) A FCP- Fond commun de placement is a type of specialised investment fund used by European financial institutions.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee has decided to partly mitigate this risk by using a currency hedging strategy of roughly half the exposure to the USD, Japanese Yen and Euro equities, and all the US Dollar exposure of private debt, using forward currency contracts.

Notes to the financial statements (continued)

10. Investment risk disclosures (continued)

The Fund's total net exposure by major currency at the year end was as follows:

	Gross exposure £000	Hedged exposure £000	**Net exposure 2022 £000**	Net exposure 2021 £000
Pounds sterling	361,896	862,351	**1,224,247**	1,512,770
US Dollars	1,302,018	(674,842)	**627,176**	697,426
Euros	341,091	(135,024)	**206,067**	182,648
Japanese Yen	47,832	(19,144)	**28,688**	56,541
Other currencies	262,147	(33,341)	**228,806**	262,578
Total investments (excluding forwards)	2,314,984	-	**2,314,984**	2,711,963
Forwards	(11,816)	-	**(11,816)**	17,080
Total investments	2,303,168	-	**2,303,168**	2,729,043

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

The Fund is subject to interest rate risk due to its bond investments in the Listed Credit pool and Liability Driven Investment (LDI) portfolios held outside the CEIFP. If interest rates and bond yields fall, the market value of the bonds will rise, while if interest rates rise the values of bonds will fall. Changes in interest rate can also influence the value of the actuarial value of the liabilities of the schemes. The increase in value of bonds that arises from a fall in bond yields will often help to 'match' the increase in actuarial liabilities arising from a fall in discount rate. Similarly, if interest rates rise the values of the bonds will fall (as they did in 2022), this will often match the decline in the actuarial liabilities because of an increase in discount rate.

As we have noted in the Trustee report, UK Gilt yields rose sharply at the end of September on market concerns over the scale of unfunded tax cuts announced during the UK government mini-fiscal statement. The scale and speed of the rise in Gilt yields between 23-to-27 September 2022 caused many pension funds to have to sell investments in order to meet the collateral requirements of the LDI strategies that they were employing, which led in turn to further sales of Gilts and yield rising further. Although the schemes managed by the Trustees have LDI strategies, they did not have to undertake such extraordinary measures to meet their collateral requirements. The Pension Regulator (TPR) has since announced new guidance measures for such LDI strategies, and the Trustees will continue to adopt a prudent approach in the LDI strategies it employs in the schemes to ensure that these measures continue to be met.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund's return seeking portfolio is subject to price risk which principally relates to direct and indirect equity holdings, infrastructure equity, equity futures and investment properties. The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Property and infrastructure pooled investment vehicles are illiquid and that is reflected in the structures and liquidity of funds that invest in them. Some of the funds held by the Fund are open-ended, where the manager will redeem within shorter pre-agreed timeframes, but most are closed-end and redemption will normally only happen when the funds are wound up at the end of their pre-agreed lives. The Fund's closed-end funds have a range of maturities. Units in both types of fund can be traded between investors privately, but this is rare and managers generally have a say over whether such transactions can take place.

Private debt is illiquid, with funds becoming available when the underlying debt instruments mature. The instruments vary in maturity date, but usually mature within the next five years, giving access to the funds within a reasonable timeframe. There is unlikely to be a liquid secondary market for these private debt instruments.

11. Member schemes' participation
The Fund has five pools: the public equity pool containing mostly listed equities, the diversified growth pool containing mostly property and private equity assets, the diversified income pool containing mostly private loans and infrastructure assets, the listed credit pool containing corporate bonds and the liquidity pool containing cash.

Unitisation is the process of allocating units in the CEIFP to its participant member. The participant pension schemes purchase or dispose of CEIFP units in accordance with their operational requirements. The pricing of units is carried out by Northern Trust who also prepare monthly unitisation reports showing each participant's holdings in the CEIFP and transactions during the period.

The tables below show the movements in participants' holding in each of the pools:

Notes to the financial statements (continued)

11. Member schemes' participation (continued)

Listed credit pool:

	At 1 January 2022 £000	Amounts receivable on issue of units £000	Amounts payable on cancellation of units £000	Change in net assets from investment activities £000	At 31 December 2022 £000
The Church of England Funded Pensions Scheme	47,799	177,845	(15,556)	(15,022)	**195,066**
The Church Workers Pension Fund					
Pension Builder Classic	7,800	-	(7,800)	-	-
Defined Benefit Scheme – Employer section	2,886	-	(554)	(583)	**1,749**
Defined Benefit Scheme – Life Risk section	21,045	553	(21,045)	(9)	**544**
The Church Workers Pension Fund	31,731	553	(29,399)	(592)	**2,293**
The Church Administrators Pension Fund	30,255	20,300	(29,400)	(8,468)	**12,687**
Total Listed credit pool	109,785	198,698	(74,355)	(24,082)	**210,046**

Public equity pool:

	At 1 January 2022 £000	Amounts receivable on issue of units £000	Amounts payable on cancellation of units £000	Change in net assets from investment activities £000	At 31 December 2022 £000
The Church of England Funded Pensions Scheme	1,184,759	37,334	(317,028)	(157,375)	**747,690**
The Church Workers Pension Fund					
Pension Builder 2014	25,650	6,086	(10,770)	(3,867)	**17,099**
Pension Builder Classic	81,169	2,501	(16,760)	(10,334)	**56,576**
Defined Benefit Scheme – Employer section	124,384	4,548	(101,758)	(12,755)	**14,419**
Defined Benefit Scheme – Life Risk section	41,905	11,451	(49,907)	(346)	**3,103**
The Church Workers Pension Fund	273,108	24,586	(179,195)	(27,302)	**91,197**
The Church Administrators Pension Fund	22,916	750	(15,387)	(2,514)	**5,765**
Total public equity pool	1,480,783	62,670	(511,610)	(187,191)	**844,652**

Diversified growth pool:

	At 1 January 2022 £000	Amounts receivable on issue of units £000	Amounts payable on cancellation of units £000	Change in net assets from investment activities £000	At 31 December 2022 £000
The Church of England Funded Pensions Scheme	296,980	53,968	-	6,388	**357,336**
The Church Workers Pension Fund					
Pension Builder 2014	6,210	2,951	-	67	**9,228**
Pension Builder Classic	19,469	5,795	(2)	234	**25,496**
Defined Benefit Scheme – Employer section	29,762	9,607	(2,949)	567	**36,987**
Defined Benefit Scheme – Life Risk section	6,263	3,335	(8,604)	(12)	**982**
The Church Workers Pension Fund	61,704	21,688	(11,555)	856	**72,693**
The Church Administrators Pension Fund	-	-	-	-	**-**
Total diversified growth pool	358,684	75,656	(11,555)	7,244	**430,029**

Diversified income pool:

	At 1 January 2022 £000	Amounts receivable on issue of units £000	Amounts payable on cancellation of units £000	Change in net assets from investment activities £000	At 31 December 2022 £000
The Church of England Funded Pensions Scheme	546,499	48,821	(7,003)	79,580	**667,897**
The Church Workers Pension Fund					
Pension Builder 2014	11,684	2,325	(151)	1,832	**15,690**
Pension Builder Classic	36,895	5,661	(293)	5,430	**47,693**
Defined Benefit Scheme – Employer section	57,235	10,060	(5,303)	8,152	**70,144**
Defined Benefit Scheme – Life Risk section	12,140	5,967	(16,983)	138	**1,262**
The Church Workers Pension Fund	117,954	24,013	(22,730)	15,552	**134,789**
The Church Administrators Pension Fund	12,640	7,400	(15,550)	1,614	**6,104**
Total diversified income pool	677,093	80,234	(45,283)	96,746	**808,790**

Notes to the financial statements (continued)

11. Member schemes' participation (continued)

Liquidity pool:

	At 1 January 2022	Amounts receivable on issue of units	Amounts payable on cancellation of units	Change in net assets from investment activities	At 31 December 2022
	£000	£000	£000	£000	£000
The Church of England Funded Pensions Scheme	83,618	302,928	(379,611)	105	**7,040**
The Church Workers Pension Fund					
Pension Builder 2014	1,810	19,155	(20,825)	10	**150**
Pension Builder Classic	5,749	27,481	(33,006)	9	**233**
Defined Benefit Scheme – Employer section	8,668	16,953	(24,392)	57	**1,286**
Defined Benefit Scheme – Life Risk section	56	93,263	(92,487)	70	**902**
The Church Workers Pension Fund	16,283	156,852	(170,710)	146	**2,571**
The Church Administrators Pension Fund	2,797	31,987	(34,751)	7	**40**
Total liquidity pool	102,698	491,767	(585,072)	258	**9,651**

12. Contingencies and commitments

In the opinion of the Trustee, the Fund had no contingent liabilities at 31 December 2022 (2021: nil).

As at 31 December 2022, the Board had made the following commitments:

	2022	2021
	£m	£m
Pooled investment vehicles (equity)	4.2	8.2
Pooled investment vehicles (private equity)	151.7	286.3
Pooled investment vehicles (property)	-	-
Pooled investment vehicles (infrastructure)	256.1	113.3
Pooled investment vehicles (private debt)	10.1	6.3
Total commitments	422.1	414.1

13. Related party transactions

Two Board members (2021: two) who have retired from the schemes under normal service are in receipt of pensions from the schemes.

Certain private debt investments are made through Thorney Island Limited Partnership (number LP017097), of which the Church of England Pensions Board is the Limited Partner as trustee for the Church of England Investment Fund for Pensions.

APPENDIX 3

2022 Implementation Statement

Church Administrators Pension Fund

1. Introduction

This is the Church of England Pensions Board's implementation statement in respect of the Church Administrators Pension Fund (the "**Scheme**"). This statement has been prepared in accordance with the requirements of regulations 12(1) and 12(5)(b) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), taking account of guidance published by the Pensions Regulator. The Church of England Pensions Board has prepared this statement in its capacity as Trustee of the Scheme and is referred to as the "**Trustee**" in the rest of this document.

This statement:

- sets out how, and the extent to which, in the Trustee's opinion, the Scheme's Statement of Investment Principles ("SIP") has been followed during the year to 31 December 2022 (the "**Scheme Year**"), as detailed in the table in this document;
- describes the review of the SIP undertaken during the Scheme Year;
- explains any changes made to the SIP during the Scheme Year and the reason for those changes, following that review; and
- describes any voting behavior by, or on behalf of, the Trustee in respect of the Scheme during the Scheme Year.

The SIP is prepared by the Trustee with advice from its investment consultant, Mercer. A full copy of the SIP is available on the Trustee's website here. The SIP was last amended on 29 September 2022.

2. Investment Objectives of the Scheme

Defined Benefit Section ("DB Section")

The Trustee is responsible for the stewardship of the Scheme's assets. It has three main objectives in relation to the DB section of the Scheme, which are to ensure that:

1. All beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme.
2. There are sufficient assets to meet the Scheme's liabilities as they fall due, and
3. Through the process of meeting the Scheme's liabilities, that the Scheme's investments do not work against beneficiaries' interests and the world into which they will retire.

The Trustee therefore has a long-term objective for the DB Section of the Scheme to be fully funded on a basis that incorporates gradual de-risking from the current strategy, and to reduce the reliance on the Scheme's sponsors for additional contributions. The current recovery plan is due to end on 31 December 2023 and the Trustee is targeting 31 December 2030 for reaching full funding on a de-risked basis.

DC Section

In addition to the principal objective, as stated above, the investment objectives for the DC Section translate to the following principles:

1. to provide a range of investment funds and de-risking options, that enable members to fulfil their retirement needs and ambitions; and
2. to provide a prudent default arrangement for those that do not wish to make their own investment choices under the Scheme.

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

3. Review of the SIP – what has changed in the last 12 months?

During the Scheme Year, the Trustee reviewed the Scheme's SIP with the aid of professional advice from its investment consultant, Mercer. The Trustee decided to adopt a revised SIP in September 2022. The main change was in respect of the DC section, to reflect the adoption of improved versions of the Legal and General Investment Management (LGIM) Target Date Funds (TDFs).

In addition to the SIP, the Scheme also maintains a Stewardship Implementation Framework document, which summarises how the Trustee implements its commitment to ethical and responsible investment.

4. Assessment of how the policies in the SIP have been followed for the year to 31 December 2022

The information provided in this section highlights the work undertaken by the Trustee during the Scheme Year, and longer term where relevant. This section also sets out how this work followed the Trustee's policies in the SIP, relating to the Scheme as a whole and the Scheme's default investment arrangement.

The first column of the table recites the relevant matters which the SIP must address. The second column recites the Trustee's relevant policies under the SIP in relation to those requirements. The third column explains how that policy has been implemented in practice. In summary, the Trustee is generally satisfied that the Scheme's SIP has been followed effectively throughout the Scheme Year.

	SIP content requirement	Summary of Trustee's policy / key extracts from SIP	Summary description and evaluation of work undertaken in the year to 31 December 2022
1	Securing compliance with the legal requirements about choosing investments	***Both Sections*** *The Trustee is responsible for how the Scheme's assets are invested. It takes advice from the Investment Consultant and the Scheme Actuary where appropriate, and it is supported by an in-house investment team.* *SIP section 4*	The Trustee received written advice from its investment consultant regarding a number of changes during the Scheme Year, as summarised below. These changes resulted in an update to the SIP, for which the Trustee received written advice from Mercer. **DB Section** A number of changes were made in relation to how the assets were invested over the Scheme Year. See section 2 for further details. All changes were made after considering appropriate advice from Trustee's Investment Consultant and/or Scheme Actuary. **DC Section** The Scheme's investment funds are monitored on a quarterly basis. The Trustee reviewed the investment dashboard reports at the Trustee meetings to ensure the Scheme default and non-default funds met their performance objectives. Over the year to 31 December 2022, the Scheme underwent a triennial Investment Strategy Review (ISR). The investments (fund type, management style and asset allocations) used in the default investment strategy were reviewed as part of this exercise, as well as the Scheme's current membership. The Trustee, upon consultation with their investment consultant, decided to adopt LGIM's improved TDFs, which are used as part of the default strategy (drawdown journey).The new TDFs, whilst still targeting drawdown at retirement, have a longer risk period, have greater explicit ESG integration, and have a 5bps lower annual management charge. Additionally, to reduce the risk of over-reliance on any one source of return, the TDF series asset allocation is diversified across a variety of asset classes, offering members further exposure to a broad range of asset classes with ESG tilts, along with, listed private markets and listed infrastructure. As LGIM are discontinuing the Stay Invested Journey, the eight members invested in this journey were mapped into the new default, with the option to 'opt out' and select an alternative arrangement. After reviewing the Ethical Lifestyle investment option, the Trustee decided to close this arrangement to new entrants. Alongside the triennial ISR, the Trustee carried out a review of the self-select fund range. The review covered the suitability of the existing self-select fund range. This review has

			continued into 2023 and is still underway at the time of writing.
2	Kinds of investments to be held	***DB Section*** *The Trustee operates a common investment fund, The Church of England Investment Fund for Pensions, (or "CEIFP"), comprising a Public Equity Pool, Diversified Growth Pool, Diversified Income Pool and Listed Credit Pool (together "the pools"). LDI is held outside of the common investment fund structure.* *SIP section 6* ***DC Section*** *To provide a range of investment funds and de-risking options, that enable members to fulfil their retirement needs and ambitions, and a prudent default arrangement for those that do not wish to make their own choice.* *SIP section 3*	**DB Section** The Trustee implemented changes to its equity strategy over the Scheme Year. Following advice from its investment consultant, Mercer, the Trustee: • terminated the allocation to public small cap equities with Arrowstreet; • invested into the Antin Infrastructure Partners Fifth Fund and the Igneo EDIF III Infrastructure Fund. The Trustee commissioned Mercer to carry out an annual high level review of the LDI portfolio over the Scheme Year and implemented the recommendations from this review, maintaining an interest rate and inflation hedge ratio of 90% on a gilts + 0.25% basis. The Trustee made these changes for a variety of reasons including simplifying the investment arrangements, reducing costs and managing the risks of climate change. **DC Section** Within the DC Section, monitoring of the Scheme takes place quarterly. A review of the suitability of the default investment strategy and self-select fund range was conducted during the Scheme Year. This review took into account an analysis of the member demographics, overall risk and return profile of the default arrangement, Environmental, Social & Governance ('ESG') considerations, Scheme and industry retirement trends, and the size and breadth of the self-select fund range. As part of the review of the default "journey" TDF arrangement, the Trustee elected to adopt changes to the default journey, details of which are contained in the assessment of how the previous policy was met. The review of the self-select fund continues and is in progress at time of writing.
3	The balance between different kinds of investments	***DB Section*** *The split between the pools is determined by the characteristics of the Scheme, in particular its demographic profile, the spread of time over which its liabilities fall*	***DB Section*** The Trustee continued to monitor the Scheme's funding level against pre-defined triggers based on the expected return of the current investment strategy, relative to the required return to reach full funding on a de-risked basis by 31 December 2030.

		due, its long-term target, strength of sponsor covenant and the appetite for risk of the Trustee and the Scheme's sponsors. *SIP section 8* ***DC Section*** *To provide a range of investment funds and de-risking options, that enable members to fulfil their retirement needs and ambitions, and a prudent default arrangement for those that do not wish to make their own choice.* *SIP section 3*	Funding improvements resulted in the DB section reaching its third de-risking trigger in August 2022. As a result the DB section's asset allocation was de-risked by reducing the holdings in the Public Equity and Diversified Income pools and increasing the allocation of the Listed Credit Pool and LDI mandate. **DC Section** There was no change to this policy during the Scheme Year. The investment performance was reviewed on a quarterly basis. The investment performance reports provided during the Scheme Year included how each fund or strategy were delivering against their specific mandates.
4	Risks, including the ways in which risks are to be measured and managed	***DB Section*** *The Trustee considers a wide range of specific risks, including, but not limited to, those set out in Appendix 2 to this statement (which includes a range of financial and non-financial risks) to this statement. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each one.* *SIP section 11* ***DC Section*** *The Trustee considers a wide range of specific risks, including, but not limited to, those set out in Appendix 2. The key DC specific risks considered by the Trustee and mitigated*	***DB Section*** The Trustee considered both quantitative and qualitative measures periodically throughout the Scheme Year as part of its risk monitoring and management framework. These include quarterly investment performance reports, manager due diligence undertaken by the in-house investment team and ESG reviews provided by the Ethical Investment Advisory Group ("EIAG") and Mercer amongst others. ***DC Section*** There were no material changes to this policy during the Scheme Year. As detailed in the risk table in the SIP, the Trustee considers both quantitative and qualitative measures for risks when deciding investment policies, strategic asset allocation, the choice of delegated investment manager / fund managers / funds / asset classes. The Trustee also reviews the performance of the managers on a quarterly basis and may invite managers to present to the Trustee if there are any concerns on the performance or management team. However, no issues warranted a change in investments / managers over the year to 31 December 2022. ***Both Sections***

		through the design of the default or self-select options are as follows: • *Risk of capital loss in nominal terms.* • *Risk of erosion by inflation.* • *Conversion risk.* *SIP section 11*	The Trustee maintains a risk register which includes investment risks. The risk register is maintained by the Trustee's Audit and Risk Committee, which reports to the Trustee. This enables the Trustee to continue to review and manage the risks which the Scheme faces.
5	Expected return on investments	***Both*** *Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. These characteristics will differ for each asset class.* *SIP section 7*	**DB Section** On a quarterly basis, the Trustee's Investment Committee reviews an investment performance report detailing how each investment manager has delivered against their specific objectives. The report includes a red, amber or green internal rating for each manager, which is based on a number of considerations including changing capabilities (e.g. staff changes), expected return, etc. As at 31 December 2022, two managers were on an amber rating. This meant that the Trustee regarded them as less likely than before to meet the Trustee's return and risk expectations and so the Trustee intends to monitor them more closely and, if appropriate, to switch investment managers in the future as necessary. **DC Section** The investment performance reports provided during the Scheme Year included how each fund or strategy were delivering against their specific mandates.
6	Realisation of investments	***DB Section*** *The Scheme is cashflow negative and the Trustee ensures the scheme assets are managed to provide sufficient liquidity to meet all benefit payments when they fall due.* *SIP section 9* ***DC Section*** *The pooled investment vehicles used in the DC section are daily dealt, with assets mainly invested in regulated markets and therefore*	**DB Section** An allocation to the liquidity pool is maintained in order to meet unexpected liquidity needs (e.g. retirement lump sums, transfer values, etc.). **DC Section** No changes during the Scheme Year to the liquidity of the funds used by the Scheme. All assets are daily-dealt pooled investment arrangements, with assets mainly invested in regulated markets, and therefore should be realisable at short notice, based on member demand.

		should be realisable at short notice, based on either Trustee's or member demand. *SIP section 9*	
7	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	***DB Section*** *When appointing its investment managers, the Trustee takes into consideration how they incorporate analysis of companies' performance on environmental, social and governance ("ESG") issues into their stock selection.* *SIP section 10* ***DC Section*** *The Trustee offers ethical and conventional funds, recognising that members may not wish to have their investments bound by ethics. It is not currently possible to offer funds that are run on the basis of Church of England ethics, but the ethical funds are regularly reviewed by the Trustee to ensure they are as close as can currently be found.* *SIP section 10*	**DB Section** The investment performance report is reviewed by the Trustee's Investment Committee on a quarterly basis – this includes ratings (both general and specific ESG) from the investment adviser and in-house team (including independent ESG ratings from the Ethics and Engagement team). The investment performance report includes how each investment manager is delivering against their specific mandates. The Scheme's SIP includes the Trustee's policy on ESG factors, stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The Trustee keeps its ethical investment and stewardship policies under regular review, with advisory input from the Ethical Investment Advisor Group. During the selection and appointment of a new manager the Trustee considers the ESG rating of the manager (both in-house and from Mercer), their policies, and capacity to implement our responsible investment approach. The Trustee has a formal policy in place to achieve net zero alignment by 2050 or sooner. **DC Section** The Trustee considers non-financial matters, specifically ethics (both those prescribed by the Church of England and more generally) in the selection and retention of funds, while balancing its fiduciary responsibility to achieve its investment objectives. A member survey was carried out in early 2022, which indicated a clear desire for more ESG options. Respondents also expressed more desire for more climate/ESG related options. Additional funds to be made available within the self-select range are currently under consideration by the Trustee.

8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	***DB Section*** *The Trustee regularly receives advice on the ethical implication of investments from the Ethical Investment Advisory Group ("EIAG") of the Church of England, including ethical investment policies that are developed for all Church of England investors.* *SIP section 10* ***DC Section*** *The Trustee offers ethical and conventional funds, recognising that members may not wish to have their investments bound by ethics. It is not currently possible to offer funds that are run on the basis of Church of England ethics, but the ethical funds are regularly reviewed by the Trustee to ensure they are as close as can currently be found.* *SIP section 10*	**DB Section** The Trustee maintains a list of excluded companies which derive a certain level of revenue from business activities which are incompatible with the Church of England's values. As at 31 December 2022, the list comprised 554 companies on ethical/responsible investment grounds covering a range of themes including gambling, alcohol, defence, climate change and tobacco. The revenue screen is monitored by the in-house team and refreshed every 3 months. The Trustee also undertakes a range of stewardship activities, see the Trustee's Stewardship Report 2022 for more details, found here. **DC Section** The Trustee considers non-financial matters, specifically ethics (both those prescribed by the Church and more generally) in the selection and retention of funds, while balancing its fiduciary responsibility to achieve its investment objectives. A member survey was carried out during the previous Scheme Year, which indicated a clear desire for more ESG options. Respondents also expressed more desire for more climate/ESG related options. Additional funds to be made available within the self-select range are currently under consideration by the Trustee.
9	The exercise of the rights (including voting rights) attaching to the investments	***DB Section*** *The Trustee intends that the Scheme should vote at all company meetings held by its investee companies. This is carried out by the investment team.* *SIP section 10* ***DC Section*** *The Funds available to members are managed by the investment*	**DB Section** All voting activity is carried out by the in-house investment team on behalf of the Trustee. The Trustee has considered which areas would constitute 'significant' when it comes to company engagement by their fund managers. To ensure voting behaviour is consistent with the Schemes' investment objectives and stewardship priorities, the Trustee has classified 'significant votes' as any vote against management on the basis of any of the Board's voting policies. A complete list of votes completed by the Trustee over the Scheme Year, along with the rationale behind the votes, can be found online and further details can be found in the

		manager LGIM. Voting rights are exercised by LGIM in accordance with their policies rather than those of the Trustee. *SIP section 6*	Trustee's [Stewardship Report.]() See Section 5 of this report for summary details. **DC Section** The Trustee has delegated voting rights to the investment managers and expect their investment managers to engage with the investee companies on their behalf. There has been no change in this policy during the Scheme Year and the policy reflects best practice. The Trustee has requested information on voting records from the investment managers. Investment managers are expected to take into account current best practice, including UK Corporate Governance Code and the UK Stewardship Code. The Trustee considers investment managers policy on voting and engagement and use these assessments in the selection, retention and realisation of manager appointments. The Trustee has considered which areas would constitute 'significant' when it comes to company engagement by their fund managers. To consider the extent to which voting behaviour is consistent with the Scheme's investment objectives and stewardship priorities, the Trustee has classified 'significant votes' as those which consider any one of the following factors with relevant (but not exhaustive) examples: - Climate change - Pollution & natural resource degradation - Human rights - Diversity, equity, and inclusion The Trustee has requested key voting activities from Legal & General during the Scheme Year in order to consider this, and the information received is summarised in section 5 of this report.
10	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the trustee would monitor and engage with relevant	***DB Section*** *The Trustee values engagement with companies over responsible and ethical investment issues.* *SIP section 10* ***DC Section*** *As there is no direct relationship between the Trustee and the investment manager*	**DB Section** Engagement activity is carried out and monitored by the in-house investment team on behalf of the Trustee. During the Scheme Year there were a significant number of engagement activities, particularly in respect of the Board's priority areas of climate change, ethnic and gender diversity, extractives and other initiatives for a just and sustainable world. The Board continued its involvement with various collective engagement initiatives, including the Transition Pathway Initiative, Climate Action 100+, Assessing Sovereign Climate-related Opportunities and Risks ("ASCOR") and the Mining and Tailings Safety Initiative. At a company level, key engagements included TotalEnergies, VW and Shell. Full

	persons about relevant matters)	*and due to the pooled fund structure, the Trustee believes the level of engagement and influence it can exert on the funds and companies invested is relatively low.* *SIP section 10*	details of the engagement activity is set-out in the Trustee's 2022 Stewardship Report. **DC Section** The Trustee has delegated voting rights to the investment managers and expect their investment managers to engage with the investee companies on their behalf. There has been no change in this policy during the Scheme Year and the policy reflects best practice. The Trustee has requested information on voting records from the investment managers. Investment managers are expected to take into account current best practice, including UK Corporate Governance Code and the UK Stewardship Code. The Trustee considers investment managers policy on voting and engagement and use these assessments in the selection, retention and realisation of manager appointments.
11	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies mentioned in sub-paragraph (b) of the legislation [Parts 2-8 of this Statement]	***Both Sections*** *Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected in line with the Board's ethical, climate and responsible investment policies.* *SIP section 7*	**DB Section** Over the Scheme Year, the Trustee has assessed the ongoing suitability of the appointed investment managers. Its strategy, decisions, financial and ESG/ethical performance are monitored by the Trustee's investment committee on a quarterly basis. As part of this process, the Trustee terminated the small cap equity mandate with Arrowstreet in order to simplify the investment arrangements and lower the equity exposure as part of de-risking the Scheme's investment arrangements. The Trustee believes that the appointments of its remaining investment managers are consistent with its long-term objectives and no further changes were made over the Scheme Year. **DC Section** In the year to 31 December 2022, the Trustee has discussed their selected continued appointment of the managers and are happy that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long term financial and non-financial performance. Over the period the Trustee believed that the appointments with its investment managers were consistent with its long term objectives and no changes were made.
12	How the arrangement incentivises the asset manager	***Both Sections*** *The Trustee reviews the performance of the investment managers*	**DB Section** Two investment managers had amber ratings assigned due to concerns around long term performance and/or ESG integration. On behalf of the Trustee the in-house team

	to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.	*on a regular basis versus agreed benchmarks and targets, over multiple periods, with an emphasis on the long term.* *The Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.* *SIP section 7*	undertook further due diligence to better understand these issues. The in-house team, as part of ongoing stewardship on behalf of the Trustee, also engage regularly with the asset managers on medium and long term financial and non-financial considerations, and report to the Trustee's Investment Committee on progress (as outlined in the Trustee's Stewardship Implementation Framework, available here). Over the Scheme Year the in-house team collaborated with asset managers on engagement with issuers on a range of topics including climate change and gender diversity. More detail is available in the Trustee's Stewardship Report, available here. **DC Section** In the year to 31 December 2022, the Trustee has discussed their selected continued appointment of the managers and are happy that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long term financial and non-financial performance. Over the period the Trustee believed that the appointments with its investment managers were consistent with its long term objectives and no changes were made.
13	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies mentioned in sub-paragraph (b) of the legislation [2-8 of this Statement]	***Both Sections*** *As the Trustee is a long-term investor, it does not expect to make investment manager changes on a frequent basis.* *The Trustee reviews the performance of the investment managers on a regular basis versus agreed benchmarks and targets, over multiple periods, with an emphasis on the long term.* *The fees are set on appointment and reviewed regularly thereafter. The Trustee takes advice to ensure*	**DB Section** The Trustee focusses on longer-term performance metrics when assessing managers e.g. 3 and 5-year rolling periods. The Trustee's Stewardship Implementation Framework (available here) outlines the ways in which managers' responsible investment performance is monitored and evaluated, consistent with the Trustee's ethical investment policies and strategy. The majority of investment managers are remunerated by way of a fee, calculated as a percentage of assets under management, but some do employ performance fees or the fees paid are reduced over the life of the investment. **DC Section** Over the year to 31 December 2022, the Trustee has reviewed the performance of the Scheme's investment managers on a regular basis. The review considers the performance of the investment managers versus agreed benchmarks and targets, over multiple periods, with an emphasis on the long term.

		the fees are appropriate. *SIP section 7*	
14	How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.	***DB Section*** *Portfolio turnover costs are monitored by the investment team, in absolute terms and relative to what might be reasonably expected given the underlying asset class and investment style of each investment manager, and reported to the Trustee on an annual basis.* *SIP section 6* ***DC Section*** *As part of the annual Value for Members ("VfM") assessment, the Trustee reviews the investment manager fees levied to members and considers portfolio turnover costs.* *SIP section 6*	**DB Section** The in-house investment team have started monitoring turnover costs and plan to report to the Investment Committee in 2023. **DC Section** The Trustee consider the levels of transaction costs as part of their annual Value for Members assessment. While the transaction costs provided appear to be reasonably reflective of costs expected of the various asset classes and markets that the Scheme invests in, there is not as yet any industry standard or universe to compare these to. Where appropriate with help from their advisor would challenge the level of costs incurred if they were assessed to be too high relative to expectations as this may indicate excessive turnover.

15	The duration of the arrangement with the asset manager	***Both Sections*** *As the Trustee is a long-term investor, it does not expect to make investment manager changes on a frequent basis.* *Where the Scheme invests in an open-ended vehicle, or segregated mandate, with an investment manager the Trustee expects to retain them unless:* *- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;* *- The investment manager has been reviewed and the Trustee has decided to terminate the mandate.* *For holdings in closed-ended vehicles, the Scheme would expect to be invested for the lifetime of the strategy (which is disclosed to the Trustee at point of investment), although secondary market sales could be considered under certain circumstances.* *SIP section 7*	**DB Section** During the Scheme Year, the Arrowstreet equity allocation was fully disinvested from. In addition, the Scheme invested into Antin Fund V, and the Igneo EDIF III Infrastructure Fund. The Trustee is satisfied that the duration of the Scheme's other arrangements remain appropriate and it continues to monitor this periodically. **DC Section** The Trustee will retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to that asset class or the manager appointed has been reviewed and the Trustee has decided to terminate the mandate. The investment performance of all funds was reviewed by the Trustee at each meeting. This includes how the default and non-default funds are delivering against their specific targets. There remains no set duration for manager appointments. Furthermore, there were no appointments were terminated during the Scheme Year.

5. Voting Activity & Significant Votes over the Scheme Year

DB Assets

In respect of the relevant voting assets (equities) held within the DB Section, the Trustee maintains full discretion over voting activity. This is administered by the in-house team using a platform provided by Institutional Shareholder Services ("ISS"), with input from the Trustee's Ethical Investment Advisory Group ("EIAG"), and a responsible proxy voting template developed in collaboration with other members of the Church Investors Group.

In 2022, 21,950 votes were cast, 17.1% of which were cast against management's recommendation (or support was withheld). Full details of the votes, along with the rationales, can be found here. Further details, including the voting template and examples of significant votes can be found in the Trustee's Stewardship Report 2022 here.
Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote":

- A significant vote is defined as one that is linked to the Scheme's stewardship priorities/themes.
- A vote could also be significant for other reasons, e.g. due to size of holdings.
- The Trustee are to include details on why a vote is considered significant and rationale for the voting.

The Trustee, as an active voter, exercises its voting rights in line with its comprehensive voting policy and according to its stewardship priorities. The Trustee has classified 'significant votes' as any vote against management on the basis of any of the Board's voting policies.

Examples of such significant votes are summarised in the table overleaf.

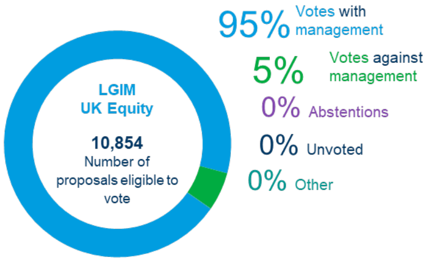
Further details, including the voting template and examples of significant votes can be found in the Trustee's Stewardship Report 2022 here.

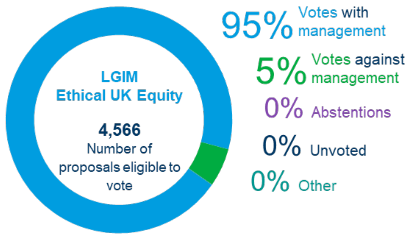
Set out below is a summary of voting activity for this reporting period relating to the relevant strategies in the DB and DC Sections of the Scheme.

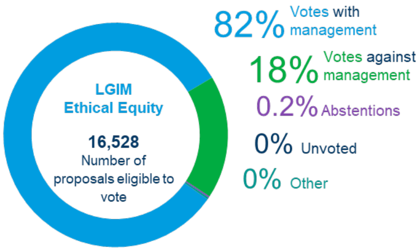
DB Section

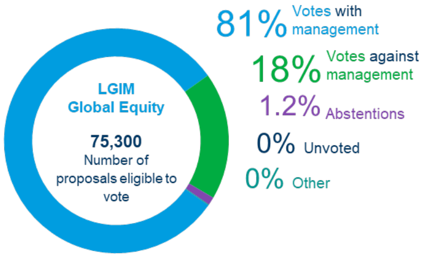
	Vote 1	Vote 2	Vote 3
Company	AstraZeneca Plc	JPMorgan Chase & Co.	Ocado Group Plc
Date of Vote	29/04/2022	17/05/2022	04/05/2022
Why was vote considered significant	Vote went against one of the Board's voting policies		
Approximate size of holding at date of vote (as a % of portfolio)	0.1%	0.2%	0.1%
Summary of resolution	Approve Remuneration Report	Advisory Vote to Ratify Named Executive Officers' Compensation	Re-elect Directors
How Trustee voted	Against the resolution	Against the resolution	Against the re-election of seven out of eight board directors
If the vote was against management, did the Trustee communicate their intent to the company ahead of the vote?	No, however, we vote consistently year on year, and follow up votes against management with engagement for our top 50 equity holdings.		
Rationale for the voting decision	We did not support the management proposal filed by AstraZeneca requesting the approval of their remuneration report. This is because the remuneration of the CEO including the annual bonus scheme was in excess of the standard set out in our voting policy.	We did not support management's proposal to approve the proposed remuneration of the JPMorgan CEO, on the basis that the package breached local good practice and the bonus scheme awarded the CEO an excessive multiple of salary (see our remuneration policy here). The CEO's compensation included a $51m stock option award, intended to incentivise his retention as CEO for five years.	We voted against re-election of all members of the nominations committee (those that had served on the committee since the previous AGM), because the Board only comprises 23% female members. We have previously voted against the chair of the committee, without seeing improvement. 23% is well below the average for FTSE 100 companies and is below the 40% threshold the Pensions Board expects for UK companies we invest in.
Outcome of the vote	7.8% of shareholders voted against the resolution	69% of shareholders voted against the resolution	All directors were re-elected, with between 2.1% and 6.8% dissent from shareholders
Next Steps	In March 2023 the Pensions Board launched the Asset Owner Roundtable on Executive pay to further combat and create discussion around the topic of fair pay. The Board invited the Chair of AstraZeneca's remuneration committee (and all other FTSE100 remuneration committee Chairs) to join the discussion. The discussion at this roundtable highlighted significant concerns about remuneration in many of the public companies we invest in. It is reasonable for senior executives to be rewarded fairly for their roles, and for good performance to be recognized. However, unfair, excessive, or misaligned incentives present investment risks, and may be indicative of wider governance failures.	Our ongoing executive pay project (see left and our 2022 Stewardship Report for further details of this initiative) will begin in the UK market, but we are exploring ways to extend our approach to other markets, including the US.	We will keep Ocado Group under review. On gender diversity more broadly, the Board continues to act to improve standards in the boardroom and industry through the Asset Owner Diversity Charter, of which we were a founding signatory. The charter "is a commitment by firms to work together to build an industry which represents a more balanced and fair representation of diverse societies. "The charter reflects both the Board and other "asset owners' aspirations to see diversity balance at all levels across financial firms". A balanced workforce is good for business, consumers, profitability and culture.

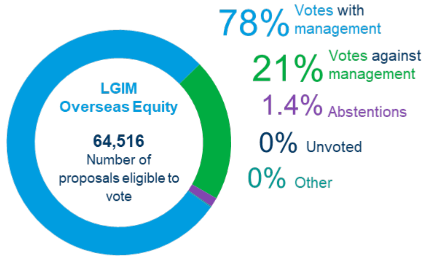
DC Section











Figures may not add to 100% due to rounding.

The table overleaf provides an example of a voting issue that arose within each one of the Scheme's funds (those that hold equities with voting rights), that is considered significant, as it relates to the Trustee's priorities above.

Key:

 *Vote passed*

 *Vote failed to pass*

Manager	Fund	Company	Date of vote	Approximate size of fund's holding as at the date of the vote (as % of portfolio)	Summary of Resolution	Criteria for assessing as significant	How the Manager voted	If the vote was against management, whether the intention was communicated to the company ahead of the vote	Rationale of Manager vote	Final outcome following the vote
LGIM	UK Equity	Royal Dutch Shell Plc	24 May 2022	6.7%	Approve the Shell Energy Transition Progress Update	Relates to climate change, which is one of the Trustee's stewardship priorities.	Against	Voted in line with management	LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, LGIM remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.	
	Ethical UK Equity	The Sage Group Plc	3 February 2022	0.4%	Re-elect Drummond Hall as Director	Relates to diversity, equity, and inclusion, which is one of the Trustee's stewardship priorities.	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM voted against because of a lack of progress on gender diversity on the board. LGIM expects boards to have at least one-third female representation on the board.	
	Ethical Equity	Visa Inc.	25 January 2022	0.9%	Elect Director Alfred F, Kelly, Jr	Relates to business ethics and transparency, which is one of the Trustee's stewardship priorities.	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM voted against as expects companies to separate the roles of Chair and CEO due to risk management and oversight.	
LGIM	Global Equity	Amazon.com , Inc.	25 May 2022	0.6%	Elect Director Daniel P. Huttenlocher	Relates to human's rights, which is one of the Trustee's stewardship priorities.	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against	LGIM voted as the director is a long-standing member of the Leadership Development & Compensation Committee which is	

								management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	accountable for human capital management failings.	
	Overseas Equity	Rio Tinto Plc	8 April 2022	1.9%	Approve Climate Action Plan	Relates to climate change, which is one of the Trustee's stewardship priorities.	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C.While LGIM notes the progress the company has made in strengthening its medium-term emissions reduction targets to 50% by 2035, LGIM remain concerned over the company's activities around thermal coal and lobbying, which we deem inconsistent with the required ambition to stay within the 1.5°C trajectory.	✓
	UK Equity	Anglo American Plc	19 April 2022	2.0%	Approve Climate Report	Relates to pollution & natural resource degradation, which is one of the Trustee's stewardship priorities.	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM recognises the substantial progress the company has made in climate reporting, primarily on transparency and the expansion of GHG emissions reduction targets (including the ambition to work to decarbonise its value chain), as well as the importance of the company's products in enabling the low-carbon transition. However, LGIM remains concerned that the company's interim operational emissions targets (to 2030) are insufficiently ambitious to be considered aligned with the 1.5C trajectory.	✓
	Global Equity	Centrica Plc	7 June 2022	0.1%	Approve Climate Transition Plan	Relates to climate change, which is one of the Trustee's stewardship priorities.	For	Voted in line with management	LGIM expects companies to set a credible transition strategy, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. LGIM view that the company has taken significant steps to progress towards a net zero pathway, however LGIM welcomes the company's review of interim targets as part of the	✓

									Science Based Targets Initiative validation process, as well as disclosures that are aligned to the CA100+ benchmark.	
	Global Equity	UBS Group AG	6 April 2022	0.0%	Approve Climate Action Plan	Relates to pollution & natural resource degradation, which is one of the Trustee's stewardship priorities.	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	While LGIM positively notes the company's progress over the last year, as well as its recent commitment to net zero by 2050 across its portfolio, LGIM has concerns with the strength and coverage of the Climate Action Plan's Scope 3 targets and would ask the company to seek external validation of its targets against credible 1.5°C scenarios. Gaining approval and verification by SBTi (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.	
	Global Equity	Occidental Petroleum Corporation	6 May 2022	0.0%	Elect Director Carlos M. Gutierrez	Relates to diversity, equity, and inclusion, which is one of the Trustee's stewardship priorities	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. LGIM is targeting the largest companies as we believe that these should demonstrate leadership on this critical issue.	
	Global Equity	Universal Health Services, Inc.	18 May 2022	0.0%	Elect Director Maria R. Singer	Relates to diversity, equity, and inclusion, which is one of the Trustee's stewardship priorities	Against	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	Following an 18-month engagement campaign, a vote against is applied by LGIM because of a lack of progress on ethnic diversity on the board. LGIM expects the boards of the largest US companies to include a minimum of one ethnically diverse director. Board diversity is an engagement and voting issue, as LGIM believes cognitive diversity in business – the bringing together of people of different ages, experiences, gender, ethnicity, sexual orientation, and social and economic background – is a crucial step towards building a better economy and society.	

Source: Legal and General

THE CHURCH OF ENGLAND
PENSIONS BOARD

Task Force on Climate-related Financial Disclosures Report 2022

About the Board's TCFD Report

The Church of England Pensions Board is pleased to publish its third report aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and its first standalone climate change report. This report explains the governance arrangements and actions taken by the Pensions Board's Trustees in identifying, assessing and managing climate-related risks and opportunities. The executive summary pages are intended to be accessible to Scheme members without any specialist or technical climate expertise, whereas the length and depth of this report is intended to fulfil the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 ('the Regulations'), which are themselves designed to align with the recommendations of the TCFD.[1]

The TCFD is a market-driven initiative, set up by the Financial Stability Board (FSB) to develop a set of recommendations for consistent climate risk disclosure. Its recommendations are structured around four sections, Governance, Strategy, Risk Management, and Metrics and Targets, and the Board has voluntarily reported in line with the TCFD framework since 2020.

The Scheme covered by this report is the Church of England Funded Pensions Scheme (CEFPS), whose members are Clergy of the Church of England. It is a defined benefit scheme, with assets under management of £2.4bn as of 31 December 2022. All data in this report is as of 31 December 2022 unless otherwise stated.

The Church of England Pensions Board and its asset managers carry out significant climate-related activity, based on the Trustees' 'Statement of Investment Principles', which includes the statement that "The Trustees recognise climate change as a major financial, social and ethical risk, and one that has potential to impact gravely on the financial well-being of the members of its schemes, as well as their quality of life in retirement" (CEFPS Statement of Investment Principles 2022). Climate change has been one of two stewardship priority topics for the Pensions Board since 2018.

While the CEFPS is the only scheme in scope of the statutory requirements, the Board has previously reported on the climate governance and actions relating to the Board's common investment fund, which serves the DB Schemes and sections administered by the Board, namely the CEFPS, the Church Workers' Pension Fund Defined Benefit Scheme, the Church Workers' Pension Fund Pension Builder schemes (2014 and classic), and the Church Administrators Pension Fund Defined Benefit Scheme. Though they fall outside the regulatory requirement identified above due to their size, much of this report also applies to those schemes (due to the nature of the common fund), and the Board's climate-related stewardship governance and actions apply to and are conducted in the interests of those schemes' members alongside CEFPS. The scenario analysis and stress testing detailed below is specific to the CEFPS.

> **"This report sets out how the Board's trustees are taking steps to understand and respond to climate change, specifically in relation to our largest scheme (for clergy: CEFPS). By taking action to address climate change, we can protect our members' retirement income, and we can also help to build a more sustainable future."**

Summary for members

Introduction

Climate change is one of the most significant risks facing the world today. It is also a major risk to pension schemes, which rely on investments to provide retirement income for members. The Regulator and Government expect Trustees to demonstrate they have understood the risks and opportunities presented by climate change. This report sets out how the CEFPS is taking steps to understand and respond to climate change. By taking action to address climate change, we can protect our members' retirement income, and we can also help to build a more sustainable future.

This report shows how climate change is considered and acted upon, from the level of the Board, through its committees and executives, through investment decision-making and stewardship activity (including engagement and voting at company annual general meetings). We report on initiatives like the Transition Pathway Initiative (TPI), that we chair and has generated support from investors with over $50 trillion of assets under management. Our stewardship initiatives are reported in more detail annually in our Stewardship Report, which is available on the Board's webpages here.

Understanding the future

One of the core tools required by the regulations and reported below, is climate scenario analysis and stress testing. This involves creating a range of different possible future scenarios, based on how climate change might unfold, and then testing the impact of those futures on the global economy and our portfolio. This is a complex and imprecise business with many assumptions underpinning each scenario. However, the outcomes can help Trustees and the Executive understand the potential impact of climate change in general terms. In our case, in rapid and orderly transition climate scenarios the way we invest creates a small positive outcome over the long term, and in the failed transition scenario (where climate change is left unchecked and global warming exceeds 4°C above pre-industrial levels by 2100), the Scheme's funding position is significantly negatively impacted; it is 33% worse than a relevant baseline, and becomes under-funded. This clearly shows the financial interest we have in driving the climate transition to a low carbon economy. We should be aware that climate modelling into scenarios is still very much in development and could underplay climate impacts. To mitigate this we engage in dialogue with peers, regulators and other key experts to ensure we are well placed to understand any limitations.

Measuring climate performance

This report also includes details of metrics the Board uses to monitor climate performance over time. These metrics are only part of the story because we focus our efforts on engagement with companies we own and sectors we are invested in, encouraging them to change their emissions over time (we want to influence change in the real world, rather than just avoiding emissions in our own portfolio). That said, the metrics show a positive picture, and a steady decarbonisation, ahead of our target since the baseline year (2019). Our portfolio is also, according to a 'portfolio alignment' methodology detailed below, better aligned to the climate transition (over the short, medium, and long term) than relevant benchmarks. This is no accident and reflects intentional steps the Board has taken in developing TPI and integrating that insight into the passive mandate and active managers.

Future reports

Overall, this is a report, rather than an assessment. It shows the governance structures, strategies, risk management approaches and metrics and targets for the clergy scheme in 2022. It does not include full details of the collaborations we have built and contribute to, nor the outcomes of our engagement (see our Stewardship Report for these). Also, the metrics and analysis are limited in several ways: data availability, methodological challenges and the difficulty investors have in interpreting the way their portfolio impacts on and is impacted by the future, all contribute to the challenge. As we continue to report in future years, this disclosure will improve in breadth, depth and clarity. Nonetheless, we hope that this report will give members a sense of the amount of time and effort the Board is putting into understanding and acting on climate change.

Why is climate risk important to pension funds?

The Pensions Board's trustees have selected climate change as a key priority for risk management and our ethical and responsible investment approach. This means the Trustees and executives prioritise the integration of climate considerations in investment decision-making and undertake dedicated and impactful stewardship with portfolio companies. It also means the Pensions Board dedicates significant efforts to pursuing strategic projects to limit the impacts of climate change, such as our strategic focus on mining and corporate climate lobbying as two examples.

The Board's climate change policy notes that "greenhouse gas emissions are the most significant contributor to changes in the world's climate, and that urgent action is needed if we are to avert the worst consequences of climate change on ecosystems, and on present and future generations… Climate change is a present day reality and already leading to significant impacts on the poorest and most marginalised in the world. The poorest are least able to adapt to climate-related extremes, yet suffer disproportionately the ecological, social and economic consequences that flow from these changes".[2]

Specific risks that can manifest from climate include:

- Death, injury, ill-health, or disrupted livelihoods in low-lying coastal zones, in small island developing states and in other small islands due to storm surges, coastal flooding and sea level rise.
- Severe ill-health and disrupted livelihoods for large urban populations due to inland flooding in some regions.
- Breakdown of infrastructure networks and critical services such as electricity, water supply, and health and emergency services as a result of extreme weather events.
- Increased rates of mortality and morbidity during periods of extreme heat, particularly for vulnerable urban populations and those working outdoors in urban or rural areas.
- Food insecurity and the breakdown of food systems as a result of warming, drought, flooding, and precipitation variability and extremes, particularly for poorer populations in urban and rural settings.
- Loss of rural livelihoods and income due to insufficient access to drinking and irrigation water and reduced agricultural productivity, particularly for farmers and pastoralists with minimal capital in semi-arid regions.
- Loss of marine and coastal ecosystems, biodiversity, and the ecosystem goods, functions and services they provide for coastal livelihoods, especially for fishing communities in the tropics and the Arctic.
- Loss of terrestrial and inland water ecosystems, biodiversity, and the ecosystem goods, functions and services they provide for livelihoods.[3]

The risks and related information detailed throughout this report provide the rationale for the time and resources the Trustees have spent on the governance of climate-related risks and opportunities.

What is transition and physical risk?	Examples
Transition risk relates to the financial implications of the rapid required transition to a low carbon economy.	• Technology change • Policy and regulatory change • Opportunities (e.g. critical minerals, green infrastructure) arising from the transition
Physical risk relates to the physical impacts (direct and indirect) of extreme weather and climate changes arising from global warming.	• Chronic risks such as water and food insecurity • Acute damage to infrastructure from storm, fire or flooding

Why is climate risk important to pension funds? continued

WHAT DRIVES INVESTMENT-RELATED CLIMATE RISK?

From an investment perspective, the Trustees view climate change as creating both systemic and idiosyncratic risks and opportunities. That is, risks to the entire global economic system, as well as individual companies within that system.

Broadly speaking, on the negative side, there is risk that unchecked climate change will damage the global economy, and risk that individual companies in which we invest will be worse off due to valuation changes, regulatory burden, stranded assets, acute (e.g. storms, fires) and chronic (e.g. water stress) risks manifesting. We believe that investment markets are not fully pricing in climate change risks, due to a range of systemic obstacles including the tragedy of the horizons (time horizon mismatches between capital markets and our beneficiaries climate-related interests), complexity, pricing failures, behavioural economics, and slow adoption of effective stewardship among regulators and within capital markets.

The Board's approach to stewardship directly addresses a number of these obstacles, for example the TPI providing analytical clarity and comparability, the integration of TPI analysis changing incentives, investor networks galvanising collaboration, and the development of a global corporate climate lobbying standard contributing to improved public policy dialogue through improved alignment between corporations and their industry associations. The rapid transition to a low carbon economy may also benefit a subset of portfolio companies, particularly those offering climate solutions, critical transition minerals and green infrastructure.

Governance

Roles and responsibilities

The Board of Trustees has responsibility for responsible investment, and this includes oversight of climate-related risks and opportunities relevant to the Schemes. The Investment Committee (a sub-committee of the Board) supports the full Board of Trustees by making recommendations and by overseeing the implementation of the Board's investment and climate strategies. The Chief Executive Officer, Chief Investment Officer and Chief Responsible Investment Officer, are the lead executives responsible for making sure appropriate strategies are in place to understand, identify, measure, monitor, control, and report risks and opportunities related to climate change, and responsible investment concerns more broadly. They are supported by management, which includes in-house responsible investment specialists, who advise the Board and its Investment Committee with standing agenda items at meetings, and regularly review the Board's approach and implementation of relevant strategies.

How the Board assesses and manages climate change risks

The Board of Trustees receives updates from a number of parties on climate-related risks and opportunities:

- The Investment Committee provides updates to the Board at every meeting as a standing agenda item, which includes a review of progress against the Board's stated objectives on responsible investment, asset manager climate-related assessments, and company engagements. It also updates on investment strategy on an annual basis, and scenario analysis biannually.
- The Church of England Ethical Investment Advisory Group (EIAG) provides ethical investment advice to the Board and Investment Committee, and has committed to review their climate advice annually.
- Where appropriate, the Board engages consultants to produce detailed work on climate change to better understand risks and opportunities. For example, the Board has worked with Mercer, Ortec Finance and Cambridge Econometrics (on climate change scenario analysis), LCP/the Scheme Actuary (who provide advice on climate change risks/impacts upon CEFPS's funding strategy and the triennial actuarial Scheme valuations), MSCI (carbon footprint data), the Transition Pathway Initiative (company-level climate assessments and asset allocation via the TPI Climate Transition Index), and Cardano (employer covenant climate change scenario analysis).
- External climate change experts also provide relevant training and further 'deep dives', for example on regulatory requirements related to TCFD, and undertook a detailed session on scenario analysis (in 2022).

The Board of Trustees reviews specific data via specific indicators established by the Board to track and monitor progress on climate change within the Scheme. These metrics are covered in more detail in section 4.

How management assesses and manages climate change risks

The Trustees have considered and provide the following rationale for the management time and resources spent on climate change: 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. As such it is appropriately considered a key stewardship priority, demanding a significant proportion of the investment team's time and effort. The Board's Climate Change Policy is available here.

The Board of Trustees has developed significant in-house expertise within the management team on climate change, and executives' various memberships, global leadership positions, and collaborative initiatives present significant opportunities for ongoing training and skills development. Relevant initiatives include:

- Management participate in and to a large extent have leadership roles in initiatives such as Transition Pathway Initiative (TPI), The Paris Aligned Investment Initiative and its Net Zero Investment Framework (NZIF), the Powering Past Coal Coalition, and Financing the Just Transition Alliance.
- Management and team members regularly chair investor dialogues between high carbon sectors and investors.
- Formal training such as courses by the Principles for Responsible Investment and the CFA institute are supported with paid study leave where appropriate.

The process by which the Trustees satisfy themselves that the CEO, CIO, CRIO, relevant 'in-house' staff and advisors take adequate steps to identify, assess, and manage the climate risks and opportunities includes the steps set out in this governance section, and includes formally reviewing and discussing reports and detailed presentations from executives and external advisors at Investment Committee and Board meetings.

Governance continued

Establishing a culture of climate risk awareness

The Board of Trustees ensure staff are informed on progress against climate objectives. In climate change meetings and presentations, where management presents, external advisors are expected to challenge and comment, and when advisors present, management is expected to challenge and comment.

Process of selecting advisors and providing data

Advisors are selected through the Board's established procurement processes, to ensure the relevant competency/expertise and value for money. For the investment advisor, advice on climate change is explicitly mentioned in the Advisors' formal documentation ('Strategic Objectives for Investment Consultancy Services'), the investment advisor is reviewed against their strategic objectives annually. Advisors undertaking scenario analysis were provided with liability and asset allocation information during the Scheme year (2022), carbon footprint data was calculated on the basis of holdings data from the Board's Custodian, also during the Scheme year (2022). The Board most recently conducted, and the Audit Committee reviewed audits on its 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.

Plans for the next reporting period

The Board plans to undertake scenario analysis at least every three years, or at the discretion of the Investment Committee, which monitors other climate information on an ongoing basis (quarterly).

Strategy

Our strategy to incorporate climate risks and opportunities

The Church of England Pensions Board's strategy to climate is focused on driving a transition of the global economy to net zero emissions through using the levers at our disposal as a responsible investor and stakeholder in the operations of the Scheme's employers. We see climate change as a significant risk to the value of pensions but also to the future of the planet, the communities our beneficiaries serve, and our society. Our focus is therefore to drive changes in the real economy via improving policy and industry action aligned with a swift, fair, just transition to net zero by 2050. Our strategy includes six levers: our commitment to act, understanding the transition, taking action and manager monitoring, public policy engagement, portfolio alignment and testing, and robust stewardship and engagement.

APPLYING OUR INTERCONNECTED STRATEGIC APPROACH TO CLIMATE CHANGE

Commitment to act
The Board remains committed to Net Zero by 2050, or sooner.

Understanding the transition
The Board continues to Chair the TPI (which in 2022 saw the launch of the Global Climate Transition Centre at the London School of Economics), leads developments in Net Zero investor practice through the Paris Aligned Investor Initiative, which we Chair, and has convened UK pension funds to develop principles for the just transition in emerging market investments.

Public policy engagement
In addition to supporting the public policy engagement of the Institutional Investors Group on Climate Change, in 2022 we launched the climate corporate lobbying standard in collaboration with a large group of investors.

Taking action and manager monitoring
We continue to monitor climate characteristics of the portfolio at an asset manager level, and engage with them to enhance their approach to climate.

Portfolio alignment and testing
A summary of our 2022 climate scenario analysis, stress testing and alignment are included below.

Robust stewardship and engagement
A list of climate-related initiatives is included on page 17. In addition to which, we engage companies directly, voting on the basis of climate assessments at company AGMs and, for example, encouraging companies to publish corporate climate lobbying reviews. We also integrate climate stewardship into our passive investments, through the FTSE TPI Climate Transition Index, which we helped to design and is based on TPI data.

Climate scenario analysis

Stress testing our strategy using climate scenario analysis

The Pensions Board has been carefully considering and testing the impact of climate risks and opportunities. For example, we partnered with Mercer as part of their 'Future Makers Working Group' to produce the report *Investing in a Time of Climate Change* in 2015[4] and The Sequel report in 2019[5] both critical reports in supporting the investment industry to understand the impact of climate change on portfolios. We undertook climate scenario analysis and stress testing in 2015 and 2019, and in 2022.

What drives investment-related climate risk?

From an investment perspective, the Trustees view climate change as creating both systemic and idiosyncratic risks and opportunities. That is, risks to the entire global economic system, as well as individual companies within that system. Broadly speaking, on the negative side, there is risk that unchecked climate change will damage the global economy, and risk that individual companies in which we invest will be worse off due to valuation changes, regulatory burden, stranded assets, acute (e.g. storms, fires) and chronic (e.g. water stress) risks manifesting. We believe that investment markets are not fully pricing in climate change risks, due to a range of systemic obstacles including the tragedy of the horizons (time horizon mismatches between capital markets and our beneficiaries climate-related interests), complexity, pricing failures, behavioural economics, and slow adoption of effective stewardship among regulators and within capital markets.

The Board's approach to stewardship directly addresses a number of these obstacles, for example the TPI providing analytical clarity and comparability, the integration of TPI analysis changing incentives, investor networks galvanising collaboration, and the development of a global corporate climate lobbying standard contributing to improved public policy dialogue through improved alignment between corporations and their industry associations. The rapid transition to a low carbon economy may also benefit a subset of portfolio companies, particularly those offering climate solutions, critical transition minerals and green infrastructure.

Climate scenario analysis – the scenarios

In accordance with paragraphs six and seven of the Schedule of the Regulations,[6] the Trustees have chosen the following scenarios (and their key assumptions, which are described below), because they test potential impacts on, and resilience of, the Schemes' investments and funding position. The Regulations specify that at least two scenarios are modelled, and that they include at least one scenario that limits the global average temperature increase to between 1.5 degrees and 2 degrees Celsius above pre-industrial levels. The trustees have chosen to model three scenarios in order to cover high and low ambition outcomes, along with orderly and disorderly transitions. Due to the complexity of the modelling involved, and the significant number of variables, assumptions, and estimates involved, the trustees have chosen to report at a relatively high level of analysis.

- **A Rapid Transition –** Average temperature increase of 1.5°C by 2100. Sudden divestments across multiple securities in 2025 to align portfolios to the Paris Agreement goals which have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Following this shock there is a partial recovery. Long-term physical risks are reduced but deviations from the present climate are still expected.

- **An Orderly Transition –** Average temperature increase of less than 2.0°C by 2100. Political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. Transition impacts do occur but are relatively muted across the broad market.

- **A Failed Transition –** Average temperature increase above 4°C by 2100. The world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. These are reflected in repricing events in the late 2020s and late 2030s.[7] Limited transition risks over and above existing commitments and policies.

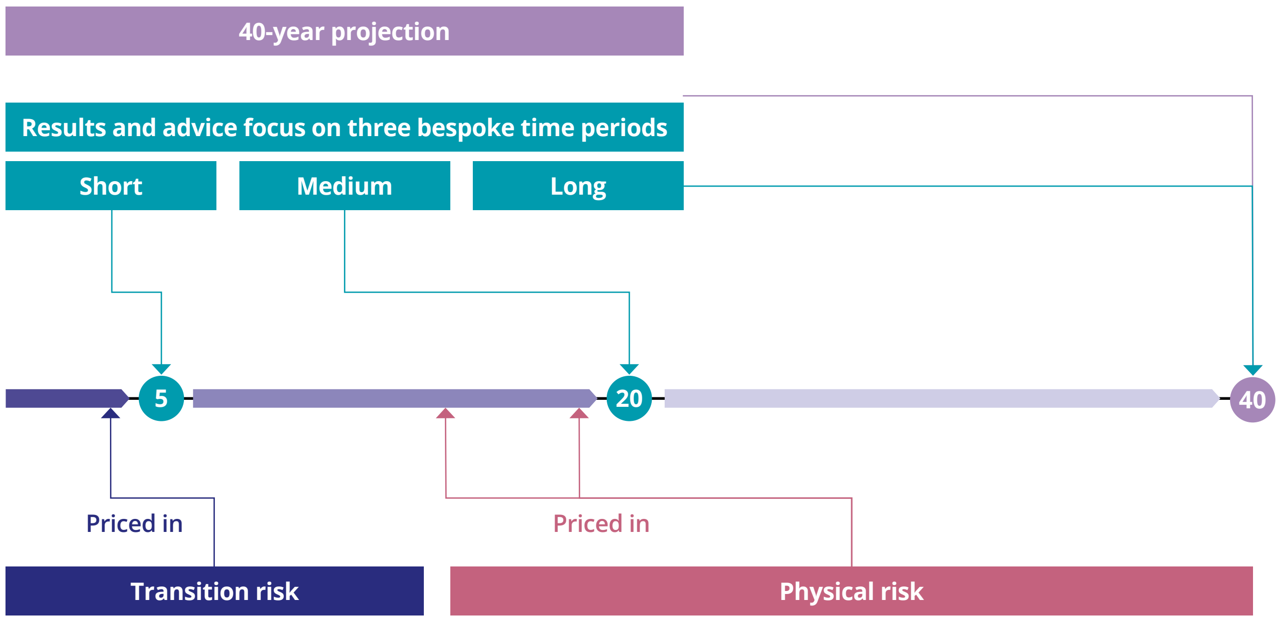
In summary, over shorter time frames (<5 years), transition risk tends to dominate while over longer time frames (20-40 years) physical risk will be the key driver of climate impacts on the Scheme. All of the climate scenarios included in the Strategy Section 'price-in' transition risk over the short term, and two separate physical risk-based shocks over the medium term. The transition risk shock is more pronounced under the 'rapid transition' scenario and the physical risk shocks are more pronounced in the 'failed transition' scenario.

Climate scenario analysis continued

In accordance with paragraph 4 of the Schedule of the Regulations, the Trustees have determined, taking into account the Schemes' liabilities and obligations, that the appropriate timeframes are: Short-term (five years), Medium-term (20 years), and Long-term (40 years). The modelling assumes that at a market level orderly transition risks are reasonably priced in, however longer-term physical risks are more likely to be mispriced. Transition risks remain at sector level and at the market level due to the potential for more extreme transition scenarios to occur. The climate scenario analysis described below applies these timeframes in relation to the Scheme's assets, liabilities and covenant.

The modelled risks and their time frames are illustrated in this diagram:

THE MODELLED RISKS AND THEIR TIMEFRAMES



Climate scenario analysis continued

Results of climate scenario analysis

In accordance with paragraphs 6 and 7 of the Schedule of the Regulations, the following section describes the potential impacts on the scheme's assets and liabilities, identified in climate scenario modelling and stress testing during 2022.

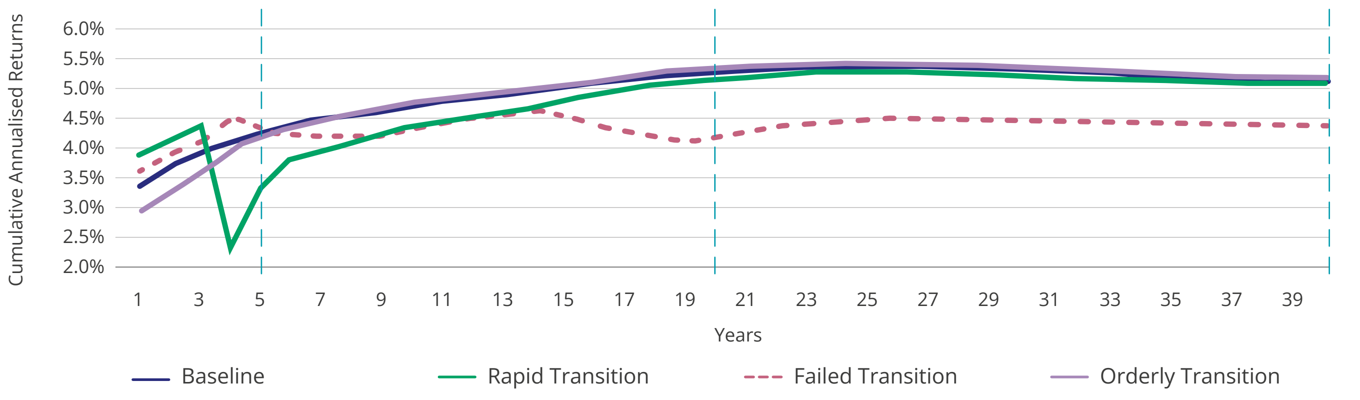
This analysis is based on the Scheme's 2022 asset allocation, and all asset classes are in scope.

The climate model underlying this analysis is the Cambridge Econometrics E3ME climate model, and the baseline Mercer has provided is a 'climate aware' baseline, comprising a mixture of Orderly Transition (40%), Rapid Transition (10%), Failed Transition (10%), and low impact scenarios, which include the potential for the transition to have an overall positive impact (40%).

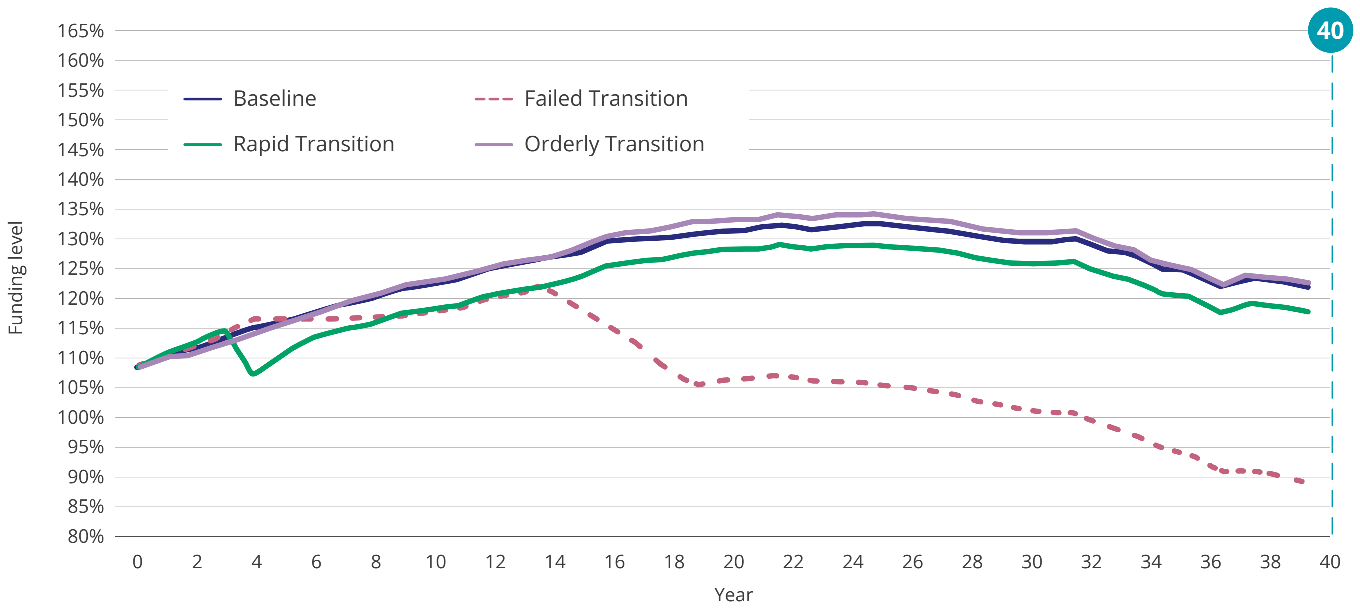
In relation to the assets and modelled funding position of the Clergy Scheme (CEFPS), the Board noted the following highlights:

- The Board's significant allocations to sustainable investments limit the climate impact under a Rapid Transition scenario e.g. a funding level 1.6% higher over five years for the long-term strategic asset allocation (SAA) relative to a comparator SAA without sustainable tilts. Over the medium and long term, the failed transition scenario generates the most significant financial impact, incurring investment return losses between 0.5 and 1% pa. Over a 40-year period, the financial losses arising from a failed transition are estimated to equate to a loss of around a third of the Board's assets relative to a baseline. This is consistent with previous climate scenario analysis undertaken by the Board, and demonstrates a clear fiduciary interest in avoiding a Failed Transition.

CEFPS ASSET-ONLY ANALYSIS CUMULATIVE ANNUALISED RETURNS



FUNDING LEVEL ANALYSIS (LONG-TERM PROJECTION)



Climate scenario analysis continued

- Comparing the Scheme's SAA (which includes allocations modelled as 'sustainable' and with some degree of climate awareness factored in) to a similar SAA without any sustainable or climate-adjusted allocations is instructive as it suggests the position of the Scheme relative to a peer without any climate-related investment decision-making. Across orderly and rapid transition scenarios, our allocations to climate and sustainability investments generate a positive impact, reducing the climate sensitivity of the funding level, with a funding level premium of between +0.4% and +2.1%. Under the Failed Transition Scenario, our sustainability tilt creates a funding level discount of between -0.2% and -0.6% (i.e. a small increase in climate sensitivity of the funding level).

- Though there is a risk of 'spurious accuracy' given the long-term nature of the projection and layers of assumptions, and there is no adjustment made to reflect the dynamic nature of asset allocation (the analysis is based on a snapshot SAA that endures 40 years) the trustees consider that this analysis demonstrates (further) fiduciary interest in avoiding a failed transition.

- A Failed Transition would have a drastic long-term negative impact on the Scheme's financial position, regardless of whether the Board invests sustainably or non-sustainably, since both result in a funding level nearly 33% lower than the Baseline. This gives a clear fiduciary motivation for the Board to seek to avoid a Failed Transition by allocating to sustainable assets and continuing to use its significant influence with global decision makers.

- The consideration of climate risks and opportunities is incorporated into funding strategy decision-making, principally in the context of the CEFPS's surplus. In this context, the Board's view is that there is a good level of risk mitigation in place, and climate-related opportunities can be explored.

Covenant-related analysis and results

While Mercer modelled the impact of the three climate scenarios on the Scheme's funding position, in 2022 the Board commissioned further funding-related analysis, modelling effects on the Scheme covenants. This involved a qualitative assessment of 10 risk categories:

CORRELATION OF RISK FACTORS AND SPONSORS

Identified climate risk factors are unlikely to impact the Sponsors uniformly, given their differing exposure to assets classes, donations and inflation; Broadly Balanced DBFs appear most exposed to climate risk impacts, while property and inflation are clear risks for the majority of Sponsors.

Risk factor	Asset Reliant DBF	Asset Rich DBF	Broadly Balanced DBF	NCI Reliant DBF	Church Commissioners
GHG emissions	Medium	Medium	Medium	Medium	Limited
Access to renewable energy	Medium	Medium	Medium	Medium	Limited
Operational property	High	High	High	High	Limited
Investment property	High	Medium	Limited	Limited	Medium
Longevity of congregation	High	Medium	High	High	Limited
Longevity of clergy	High	High	High	High	Limited
Migration	Limited	Limited	Medium	Limited	Limited
Environmentally friendly trends	Limited	Limited	Limited	Limited	Limited
Donations and parish share	Medium	Medium	Medium	Medium	Limited
Inflation	High	High	High	High	Medium

● Limited expected exposure
● Medium expected exposure
● High expected exposure

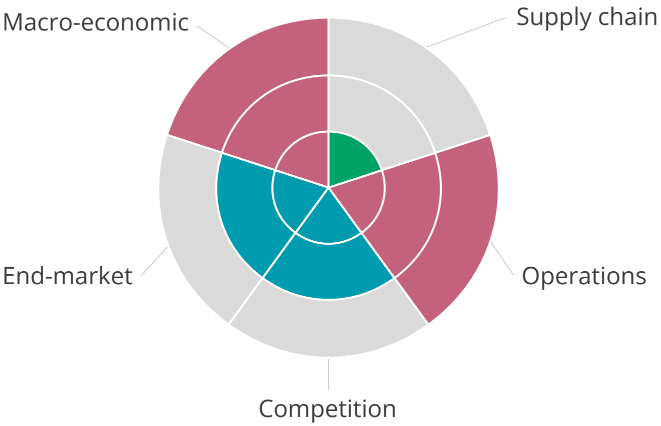
Climate scenario analysis continued

On the basis of how the Scheme's overall sponsor covenant is supported by the individual Sponsors, and considering the potential manifestation of these risk factors over the short, medium and long term, Cardano made the following assessment, which the Board has taken into consideration:

ASSESSED POTENTIAL BUSINESS RISK OVER TIME

	Near-term (5 years)	Mid-term (20 years)	Long-term (40 years)
Rapid	Medium risk	Medium risk	Medium risk
Orderly	Lower risk	Medium risk	Medium risk
Failed	Medium risk	Higher risk	Higher risk

TRANSMISSION CHANNEL EXPOSURE IN FAILED TRANSITION SCENARIO



Overall, over the medium and long term Cardano identify 'medium risk' to the covenant under rapid and orderly transition scenarios, and 'higher risk' in a failed transition scenario.

The key driver over the short term is the cost of aligning property to net zero. Based on the Sponsors' total operational property value (£3,271m) and the average emissions of a household (8.1tCO_2 per £292,000 property), the potential cost Cardano calculate of offsetting all emissions could range from c.\$6m to c.\$68m per annum. This is treated as a potential strain to the sponsors. We note the 2022 announcements from the Church Commissioners which release funding to improve operational emissions across the Church of England. This additional net zero funding was not factored into the covenant analysis.

Over the medium and long term, macro-economic and physical risk-based impacts dominate. The analysis identifies that three of the five largest Responsible Bodies (excluding the Church Commissioners) are expected to be exposed to both flooding and extreme heatwaves by 2050.

This analysis coheres with Mercer's analysis that the Board operates under strong fiduciary reasons to avoid the failed transition scenario, and that the investment and funding strategies are more resilient under rapid and orderly transition scenarios.

The Trustees have noted a number of recommendations made by Cardano in relation to developing the analysis, including a suggestion that the Board may wish to undertake an assessment of the impact of climate change on mortality, as this is a key component of Scheme liabilities and the covenant of the Sponsors. The funding position agreed at the December 2021 valuation was based on mortality assumptions that have climate information incorporated into them in line with LCP's central assumptions.

Limitations of climate scenario analysis

The Trustees note that the multi-dimensional nature of climate change makes it challenging to form a reliable comprehensive view as to which risks and opportunities will affect the Scheme's investments directly. Nor is it easy to identify which climate scenario pathway the global economy will follow. The following limitations (which might apply to the investment, funding, and/or covenant scenario analysis undertaken) were considered:

- Climate risks are manifested in the form of economic shocks/impairments which may not fully account for the full systemic nature of the risks posed by climate change. There are a range of risks that it is not possible to model and/or are not included in the analysis. These include for example intersecting risks (where overlapping/intersecting impacts would cause increased harm), and cascading risks (where the realisation of some climate-related impact acts as a tipping point which exacerbates some future risks and changes the set of possible outcomes for the worse), both of which have the potential to multiply impacts in particular locations, affecting sectors or regions.
- **Scenario uncertainty:** Any climate scenario only reflects one possible way to achieve a certain temperature goal, while in reality many different scenarios are possible for the same temperature outcome.
- **Model uncertainty:** Different models lead to different results, due to different model structure and assumptions.

Climate scenario analysis continued

- **Uncertainty around assumptions:** For example, ambitious scenarios depend on future (negative emissions) technologies such as carbon capture and storage.
- **Gaps:** On the other hand, certain necessary changes to achieve zero emissions are currently not included in most models, such as changes in lifestyle (e.g. plant-based diets) or economic systems (e.g. circular economy). Furthermore, certain high-risk impacts cannot be covered in most models, such as impacts of sea level rise, migration, health and tipping points in the climate system.
- **Limitations of the macro-economic model used (E3ME):**
  - Land use is not included; therefore, high use of Bioenergy and Carbon Capture and Storage (BECCS) in the energy mix is modelled to offset hard-to-abate emissions. Note that fossil fuels + CCS results in zero emissions, while bioenergy + CCS results in negative emissions.
  - E3ME is an econometric model, so it can only include technologies that already exist, and where sufficient data is available to make assumptions on future changing costs.
- Liability projections allow for interest rate and inflation impacts across the scenarios. To the extent interest rate and inflation exposures are unhedged, this will impact funding level projections.
- Any assumptions underlying the Liability Benchmark Portfolio regarding financial (e.g. RPI/CPI wedge) and demographic assumptions (e.g. lack of transfers and long-term improvements in mortality) are expected to play out as expected.
- For the avoidance of doubt, the analysis presented in this report does not take into account scenario specific impacts upon longevity. Initial research commissioned by Mercer suggests that climate impacts, solely from temperature changes (e.g. hot/cold related deaths), are unlikely to significantly impact a typical UK DB scheme's funding. This does not, however, take into account wider macro-economic and health-related impacts of climate change. This remains an area of active investigation and the expectation is that this will be incorporated into future analysis.
- The analysis is based on a current snapshot of the portfolio and underlying investments. It does not, therefore, take into account changes to the Scheme's asset allocation that would take place over time (for example the de-risking that would take place if the Scheme were more than fully funded).
- As the analysis is 'top down' (i.e. its focus is asset classes rather than underlying holdings) the model does not capture individual company climate commitments, nor changes to these over time, though sustainable asset classes are modelled to have lower climate sensitivity in general).
- Mercer's analysis relies on mapping our actual SAA to a selection of similar modelled funds/asset class exemplars within their model. Given the use of our restricted list (which removes some high-emitting companies), the FTSE TPI Transition index (which includes tilts and rules to underweight companies that perform poorly on climate metrics), trustees take the view that our portfolio is likely to be better aligned than the modelled portfolio (offering further short-term protection).

Historical analysis

The trustees, recognising the methodological challenges inherent in climate scenario analysis, note the positive outcome but put little emphasis on prior assessments. In 2020 analysis identified that we could expect the strategic asset allocation of the Board's common fund (of which the CEFPS is a significant part) 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. Stress testing analysis of the Board's portfolio (as opposed to the SAA) conducted in 2020 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).

Risk management

In accordance with paragraphs 12 and 13 of the Schedule of the Regulations, this section outlines the processes by which the Trustees identify, assess, monitor, and manage climate-related risks that are relevant to the Scheme, and describes how the processes are integrated into the trustees' overall risk management.

The Board operates three levels of climate-related risk management. These are:

- Board Level
- Investment Strategy
- Investment Implementation and Stewardship

Board Level:

At the Board level a dedicated line item is devoted to climate change in the Board's risk register, which is 'Failure to understand and respond to the paradigm shifts caused by climate change'. This register is actively maintained by the Board and its Audit and Risk Committee, and regularly updated. Risks are managed at this level through a determination of the likelihood and impacts of risks materialising and impacting the Scheme, the consideration and adoption of appropriate mitigating controls (along with a suitable executive 'owner'), and where required, actions are taken to avoid, transfer or accept the risks. In order to assist it with monitoring and managing emerging risks, the Board receives advice at least annually in relation to the employer covenant which takes into account possible climate-related risks. The Board's broader climate strategy is reviewed annually.

Investment Strategy:

At the level of investment strategy, monitoring and assessment is focused on climate-change scenario analysis (conducted periodically, every 2/3 years), monitoring emissions through carbon foot-printing and carbon intensity metrics, which are reported at the Scheme level annually, monitored at the asset manager level quarterly. Risks are managed through trustee decision-making on the basis of risks and opportunities identified. As an example of climate-related decision-making at this level, the development and selection of the FTSE TPI Climate Transition Index for the Scheme's passive investments in 2019 provided a way to integrate investment strategy with climate considerations.

Investment Implementation and Stewardship:

At the level of investment implementation and stewardship the Board integrates climate considerations into the selection and appointment of asset managers, monitors their climate commitments (across asset classes, reported to the Investment Committee quarterly), and their climate performance forms part of our manager engagement programme. The Board receives a report on investment and responsible investment activity at every meeting.

Scheme-related stewardship activities are not confined to the selection, appointment, monitoring and engagement of asset managers. As described above, the Board's Stewardship team undertakes system level engagement, deliberately attempting to lead and catalyse an improvement in climate risk-related activity in the wider financial ecosystem, and ultimately the real economy. For example, co-founding and continuing to Chair the Transition Pathway Initiative, which provides the investment industry (and the public) with a decision useful assessment of the climate transition alignment of 599 of the highest emitting corporations. TPI is now supported by investors with more than $50 trillion AUM. A list of other climate-related initiatives is included below. The stewardship team engages directly with companies in the portfolio on the basis of TPI assessments (and other climate-related assessments) seeking directly to manage climate-related risk. For example, if a company receives a poor TPI management quality assessment or does not disclose or is misaligned in its targets, it will be underweighted in the Scheme's passive investments, and in addition to proxy voting on climate-specific resolutions, will be subject to a vote 'against' the re-election of the Chair. In this way we are able to use our influence to mitigate climate transition risk in the portfolio. Finally, stewardship activities aim to bring about decarbonisation in the real economy and improve climate change disclosure, both directly (direct and through collaboration with other investors, as outlined on page 16).

Risk management continued

FTSE TPI CLIMATE TRANSITION INDEX

The Board's passive equity investments track the FTSE TPI Climate Transition Index, which the Board's stewardship team helped to design, in collaboration with FTSE Russell. A 'passive' index is attractive to an investor who wants to limit the number of transactions (buying and selling) within their portfolios, which helps to minimise their costs. This is in contrast to 'active' investment strategies, which are generally more expensive as they involve numerous complex trades and more fluctuation in the stocks that are held. This index integrates five different climate adjustments into its methodology, in order to mitigate climate transition risk. These are:

Fossil fuel reserves

Underweight companies with fossil fuel reserves.

Carbon emissions

Over/underweight companies according to their greenhouse gas emissions whilst applying sector neutrality.

Green revenues

Overweight companies generating revenues from the global green economy.

Management quality

Over/underweight companies based on the extent to which they are managing the risks and opportunities related to the low-carbon transition, and how they are addressing key aspects of the Task Force on Climate-related Financial Disclosures (TCFD).

Carbon performance

Over/underweight companies according to the extent they are committed to carbon emissions pathways that are aligned with 2-degrees or below-2-degrees Celsius warming scenarios.

The Board views carbon performance as particularly important, because it is a forward-looking assessment that identifies companies' commitment to transition. If a company does not disclose enough data to allow TPI to make an assessment, and if a company's transition plan is not in line with the Paris Commitments, the company weighting is reduced to '0' in the index. This is a de facto exclusion, which is also applied to all of the Board's public market investments (active equities and bonds).

Climate-related activities

Transition Pathway Initiative (TPI)

The Board co-founded the TPI and continues to chair this US$50trn AUM investor tool that assesses 599 publicly listed companies on transition risk, both in relation to management quality and future carbon performance.

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 European Auto manufacturers, and co-chairs the mining and steel working groups that are developing net zero standards for these sectors.

The Global Standard on Responsible Climate Lobbying

The Board co-chaired the development of the this Standard (climate-lobbying.com), which identifies best practice in corporate climate lobbying disclosure. The Standard supports companies and investors to assess the governance and practice of corporate climate lobbying and consistency with company commitments to support the Paris Goals. Fifty-five of the largest emitting companies now regularly review their climate lobbying and report annually on progress. The Standard was launched in 2022 with the support of the world's investor networks.

Assessing Sovereign Climate Opportunities and Risks (ASCOR)

ASCOR is an initiative the Board co-chairs alongside the BT Pension Scheme. The initiative is developing a public standard assessment framework for sovereign issuers, to enable improved understanding of the risks and opportunities within Sovereign bonds. The resulting assessment tool will support investor stewardship in this asset class.

Deforestation

During the Scheme year, the Board published a new policy on ethical investment in relation to deforestation, and began a deforestation stewardship programme conducting a portfolio assessment of exposure to deforestation.

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.

Institutional Investors Group on Climate Change (IIGCC)

The IIGCC is a European coalition of over 370 investors across 22 countries (€50 trillion in assets) acting to address climate change. We sit on IIGCC's board and co-chair the Corporate Programme overseeing European-wide engagement with companies.

The Board founded an initiative within IIGCC, the Paris Aligned Investing Initiative to develop a Global Net Zero Investment Framework (NZIF), so that investors can have a common framework to set net zero targets. The Board continues to co-chair the Global Asset Owner Steering Committee together with Europe's largest pension fund APG for ABP.

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.

Just Transition in Emerging Markets

During the Scheme year, the Pensions Board convened 12 UK pension funds (representing 18 million members with assets of £400bn), who committed to collaborate to support the climate transition in emerging markets. The group published a consultation on a set of principles on a just transition in emerging markets, in order to support investment decision-making, investment stewardship approaches, and future allocations to emerging markets.

Metrics and targets

The selection of metrics and targets

1. The Pensions Board uses, as described above, a range of different monitoring and internal reporting methodologies to monitor and manage climate related-risk in the portfolio. In addition to the regular flow of climate-related data that informs trustee and executive decision-making, the trustees are required by regulation to select, track and report certain climate metrics, with a view to using the metrics to identify and assess climate-related risks and opportunities that are relevant to the Scheme.

2. The Trustees, in this first year of reporting, have chosen to report on a range of metrics, some applying across a number of asset classes (for example weighted average carbon intensity), others specific to a single asset class (for example our sovereign bond-related climate metrics are not appropriate in other asset classes).

3. It is important to note the relationship between the Pensions Board's common fund, the Scheme in scope for TCFD reporting (the CEFPS), and the various climate metrics described below. Due to the unitisation process that allocates proportional ownership of the common fund to various pension scheme (including CEFPS), intensity metrics and portfolio alignment metrics will apply equally to all of the pension schemes that make use of the common fund. Absolute emissions data, however, needs to be divided according to the proportion of the common fund owned by the various Schemes. Were we to aggregate climate metrics across asset classes, as we may do in the future, the different asset allocations (the relative proportions invested in different asset classes due to the differing risk/return budgets of the schemes) would need to be taken into account.

Metric	Description	Rationale for inclusion
Absolute emissions (also described as total carbon emissions) [tCO_2e, Scope 1 and 2]	Total carbon dioxide and carbon dioxide equivalent greenhouse gas emissions (CO_2e) measured in tonnes attributable to the portfolio. A more detailed description of Scope 1,2 and 3 data is included in the appendix.	• Recommended by statutory guidance. This metric is useful in terms of a baseline, but for a scheme that is still open and growing, may be challenging to manage because any portfolio growth (whether or not the investments are aligned to the transition) will increase the measure. • Furthermore, this number is highly sensitive to asset allocation changes, where an artificial reduction can be achieved if funds are allocated from public equity to other asset classes without good data.
Carbon footprint (also described as financed emissions) [tCO_2e/\$m invested, Scope 1 and 2]	The amount of carbon (CO_2e) emitted per million US dollars invested.	• Recommended by statutory guidance. This common carbon intensity metric can be used to compare portfolios of different sizes. • This metric does not factor in the carbon efficiency of individual companies' outputs.
Weighted average carbon intensity (WACI) [tCO_2e/\$m revenues, Scope 1 and 2]	The amount of carbon (CO_2e) emitted, normalised per million US dollars of company revenues	• This common carbon intensity metric is used by the TPI in its assessment of the carbon performance of companies, and TPI assessments have been incorporated into the Board's climate stewardship strategy and tools. • This metric is useful because it provides portfolio-weighted exposure to emissions in a similar way to other measures of investment risk, such as market beta. It enables comparison between portfolios and sectors and against benchmark data. The metric also highlights portfolio exposure to carbon intensive companies, however revenue volatility (particularly in high emitting sectors) may add complexity when making assessments over time.
Portfolio data coverage [%]	The proportion of a portfolio (amount invested) that is covered by the relevant data	• This metric identifies gaps in data.
Portfolio alignment [%]	This metric shows the proportion of portfolio investments that are aligned to net zero.	• There is little consistency across the wide range of portfolio alignment methodologies that are available for pension funds. • The methodology the trustees have chosen is based on the alignment of portfolio companies' forward-looking carbon performance assessments relative to the net zero benchmarks identified in TPI analysis. This tracks companies' future contribution to climate change, relative to sector-appropriate carbon budgets. • The result is a simple measure of the proportion of aligned investments in the portfolio. • Due to the limited scope of data available relative to the portfolio, this is best assessed relative to a benchmark. • A Portfolio Alignment Metric is required under the legislation.

Metrics and targets continued

CEFPS Metrics

The following metrics are drawn from the data provider MSCI.

	2019		2020		2021		2022	
	Equity portfolio	Bond portfolio	Equity portfolio	Bond portfolio	Equity portfolio	Bond portfolio	Equity portfolio	Bond portfolio
Weighted average carbon intensity (tCO_2e/$M Sales)	142.2	13.5	83.1	15.1	67.5	12.9	65.4	32.7
Weighted average carbon footprint (Scope 1 and 2)	170.29	0.58	77.12	1.06	76.70	1.64	68.04	2.19
Data coverage by amount invested	92.45%	4.43%	89.27%	5.56%	91.53%	8.28%	92.62%	19.00%

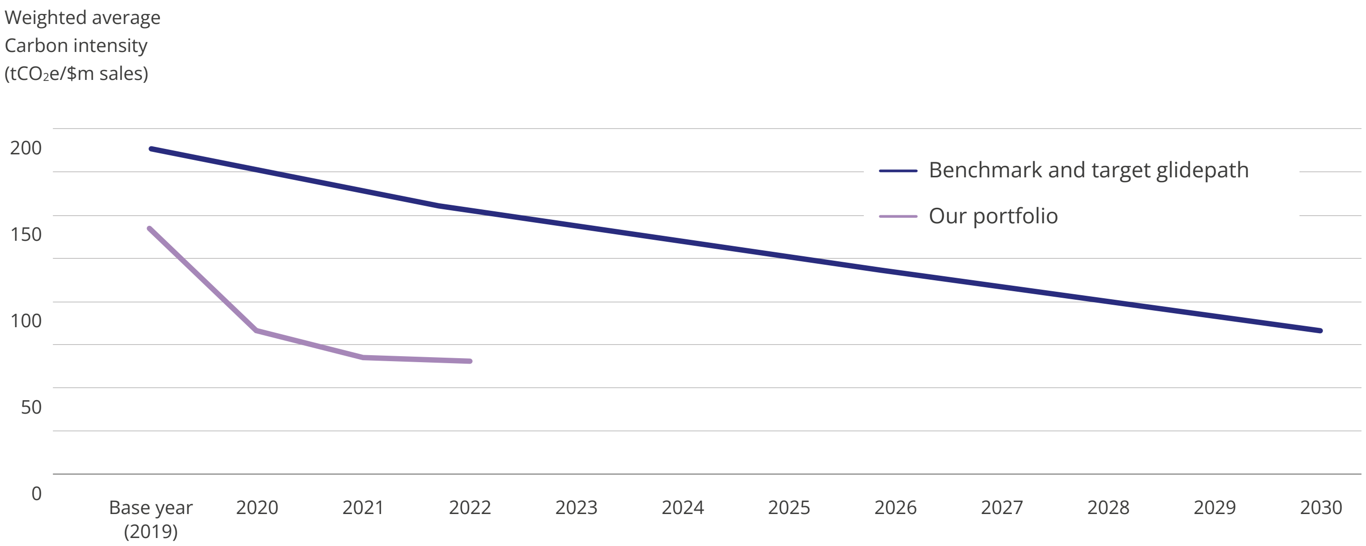
Absolute emissions

The Common Investment Fund's equity portfolio generated 48,131 tCO_2e (portfolio data as of 31 December 2022). The CEFPS Scheme 'owned' 85.75% of the common fund at the end of 2022, which equates to 42,716 tCO_2e. In prior years, the common fund's tCO_2e amounts were: 240,134 tCO_2e (2019), 111,090 tCO_2e (2020) and 108,599 tCO_2e (2021). The CEFPS's proportion of those emissions was 77% (2019), 79% (2020) and 79% (2021) respectively. Data coverage (%) is the same as reported for public equity WACI/WACF above. This is because the data provider is the same, for consistency.

Targets

4. The trustees have set a public equity decarbonisation target using the weighted average carbon intensity metric, that the portfolio will fall below a transition curve based on a year-on-year improvement of at least 7%, beginning with a 2019 benchmark (MSCI ACWI). This target decarbonisation pathway is shown in the blue curve (right), and the portfolio's emissions intensity is shown in the purple curve. The Scheme is currently ahead of its relative target.

EMISSIONS INTENSITY TARGET TO 2030 VS PORTFOLIO PERFORMANCE



Metrics and targets continued

Note on corporate bond metrics and target

5. Compared to public equity data, the Scheme's bond portfolio metrics suffer from extremely low data coverage percentages, and significant changes in the data coverage over time.

6. This has the effect of distorting the trend, which we would expect to be comparable to the trend in public equity, given that the climate-related exclusions the fund has applied are applicable both to the equity and bond portfolio (as described above). The trustees believe that it is not possible to assess with a meaningful degree of reliability, based on the current data provision, whether the bond portfolio is decarbonising in line with its 7% year-on-year reduction (from the 2019 benchmark level). This will remain under review.

Data quality, scope and limitations

7. Emissions data are continually improving, and we expect significant advances year-on-year. The Pensions Board is actively working on the development of metrics and targets they apply to our own schemes, and is active in the investment industry on the development of relevant data and assessment frameworks, for example through TPI, the Institutional Investors Group on Climate Change (IIGCC), Assessing Sovereign Climate-related Opportunities and Risks (ASCOR), and as described above and in our Stewardship Report.

8. In terms of how far the reported data covers the entirety of the CEFPS investments, the following table shows that:

Asset Class	% CEFPS portfolio at 31 December 2022
Public Equity	30.75
Real Estate	9.6
Private Equity	5.1
Infrastructure	15.7
Private Debt	6.6
Emerging Market Sovereign Debt	2.65
Alternative Income	1.46
Cash	2.7
LDI	17.18

9. The trustees have, as far as they are able, obtained Scope 1 and 2 GHG emissions data. Unfortunately, gathering reliable Scope 3 emissions data remains challenging due to poor data quality, non-standardised reporting, changing estimation methodologies, and the risk of double counting.

10. The Board purchases third-party emissions data, however, this only covers equity and corporate credit investments. We are working with our asset managers to provide comparable and methodologically consistent carbon emissions data, however we note that some managers have been unable to provide any 2022 climate reporting, even by the end of Q1 2023. With a view to consistency and comparability, this report has focused on third-party emissions data and analysis. This is a major engagement issue for us with our managers.

11. As a stark illustration of the general point being made in relation to the importance of consistent methodology, when we input the very same 2022 portfolio data into two third-party data systems, markedly different results emerge:

	Benchmark and target glidepath	WACI (Analysis A)	WACI (Analysis B)
Base year (2019)	187	203.5	142
2020	173.9	91.6	83
2021	160.8	74.3	67.5
2022	149.6	65.4	65.4

12. Though the cause of this apparent discrepancy is straightforward to explain (differences in portfolio coverage over time, differences and changes in assumptions used etc.) the variance of more than 25% in one year is dramatic and indicates the level of caution that should be applied to the metrics in this report. Analysis B is presented in the table above, though prior years' stewardship reporting used analysis A. Analysis B has been selected in 2022 because it enables 'look through' into the underlying company assessments, and includes portfolio coverage data.

13. Unlike public markets, gathering GHG data for other asset classes and reviewing methodological consistency remains time consuming and costly.

Metrics and targets continued

14. Infrastructure, private debt and private equity suffer from material data gaps and a lack of methodological consistency. However, we are members of the ESG Data Convergence Initiative, hosted by the Institutional Limited Partners Association. Only in its second year, we are supporting this initiative to standardise ESG data disclosure (including climate metrics) across private markets. The project so far has been gathering data to create a first-of-its-kind ESG benchmark for private markets, which will provide a useful comparator.

15. Our property investments are managed in a fund-of-funds, and with this additional degree of intermediation, accessing good quality reportable climate metrics has proven challenging.

EMERGING MARKET DEBT CLIMATE METRICS

	Portfolio	Index
CO_2 per capita emissions (ton CO_2/cap/yr) x MV%	3.95	4.54
CO_2 per GDP emissions (ton CO_2/1k$/yr) x MV%	0.23	0.22
GHG per capita emissions (CO_2eq/cap/yr) x MV%	6.48	6.97
GHG per GDP emissions (CO_2eq/1k$/yr) x MV%	0.39	0.36

Data source: EDGAR – Emissions Database for Global Atmospheric Research

16. In terms of other asset classes, Sovereign Debt accounts for a substantial percentage of the Scheme's assets. Gilts and LDI accounts mainly comprise UK sovereign debt (gilts), and our emerging market debt account is invested in sovereign bonds. The UK Government is committed to Net Zero by 2050, and while we engage with UK policy-makers on climate change (for example through participation in HM Treasury Transition Plan Taskforce), tracking the climate metrics of these assets is not as high a priority relative to our other investments. We are able to report metrics for our emerging market debt portfolio, relative to an appropriate emerging market index (see below), however, in order more effectively to understand and assess climate risk and opportunities in sovereign asset classes (including both UK and emerging market allocations), we set up and are co-Chairing the ASCOR project (Assessing Sovereign Climate-related Opportunities and Risks), which is currently piloting a methodology and metrics that we will apply to our holdings. The pilot of the methodology will be applied to 25 countries later this year before wider universe assessment in 2024. We will though be able to use the results partly to inform our future TCFD reporting.

17. Finally, our Alternative Income allocation is a relatively unusual investment in private equity asset managers. There are no clear guidelines or standard methodology for how to attribute carbon emissions data within this form of investment. We have engaged the asset manager on this point over time and some climate data was provided for the first time in early 2023. The data relates to 2021 so is not included in this report. We continue to engage with the manager on climate stewardship (they offer ESG support and services to the portfolio asset managers, including in relation to climate metrics), and on the development of their climate data systems.

Portfolio alignment methodology

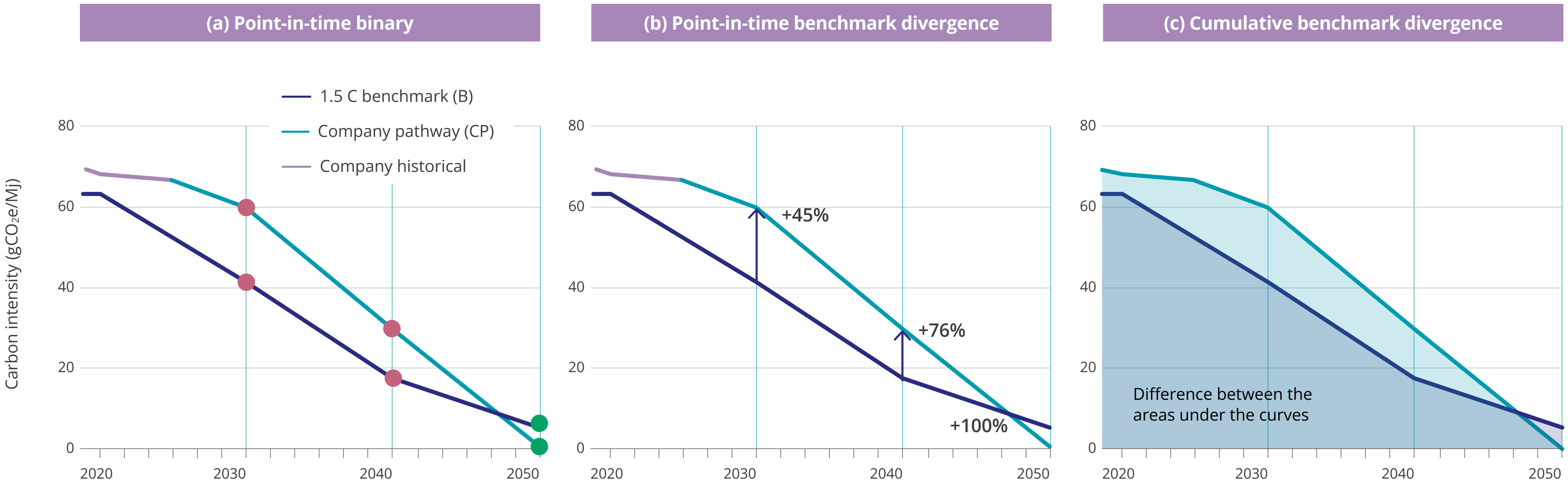
18. The trustees have chosen to report a portfolio alignment metric, expressed as a %, that is based on a novel methodology entitled "cumulative benchmark divergence", that has been developed by Dan Gardiner, Dr Sam Cornish, and Dr Adrian Fenton, all of IIGCC. Full details of the methodology, including reflections on areas of improvement, are available on the IIGCC platform[8].

19. Portfolio alignment methodologies in general resist concise and accessible descriptions, and this methodology is relatively straight-forward. Essentially, once it is possible to plot the forward looking climate commitments of companies (TPI's carbon performance assessment), and a net zero decarbonisation benchmark on the same axes, it is possible to measure alignment in three ways, firstly by looking at a point in time (e.g. whether or not a company decarbonisation pathway is above or below the net zero benchmark in 2050), secondly by measuring how far above or below the benchmark a company's decarbonisation commitments are above or below the benchmark at a particular point in time (expressed as a percentage + or -) or thirdly, by capturing the divergence (amount above or below the benchmark) over time, resulting in a single percentage score that measures performance over time, and against a net zero pathway.

Metrics and targets continued

COMPARISON OF CARBON PATHWAY ALIGNMENT ASSESSMENTS

A company carbon intensity pathway is compared to a 1.5°C sector benchmark from a base year (2019) to 2050, using: (a) a point-in-time binary approach; (b) point-in-time benchmark divergence metrics; (c) a cumulative benchmark divergence approach.



	2030	2040	2050	2030	2040	2050	2019-2050
	✗	✗	✓	+45%	+76%	-100%	+32%

	(a) Point-in-time binary	(b) Point-in-time benchmark divergence	(c) Cumulative benchmark divergence
Pros	• Simple to compute and communicate	• Captures relative performance	• Captures relative performance • A more accurate measure of performance over pathway
Cons	• Binary output does not capture relative performance • Time points may not be representative of overall performance	• Time points may not be representative of overall performance • Unstable as B tends to zero	• More complicated to compute and communicate • One step removed from climate impact when using intensity rather than absolute emissions

Metrics and targets continued

20. This analysis can be conducted at the individual issuer level, where it is helpful in addressing cases where a company's decarbonisation plan relies on sudden sharp improvements (e.g. in technology) in the late 2040s in order to achieve net zero alignment by 2050.

21. The methodology can also, and importantly for our purposes, be aggregated across a portfolio to create portfolio weight-adjusted benchmark divergence percentages, and emissions-adjusted percentages. In this way we are able to measure (to a limited degree) forward-looking alignment with a 1.5 Degree pathway, quantitatively compare our alignment with relevant comparators, and use the analysis/methodology to support stewardship and our engagement with underlying holdings (so there is a consistent methodology being used at company and portfolio level).

22. The scope of the underlying data is a common theme in this report, and is also true here, where the underlying data typically only covers 40% of the total portfolio by emissions, and less than 10% by number of companies and market capitalisation.

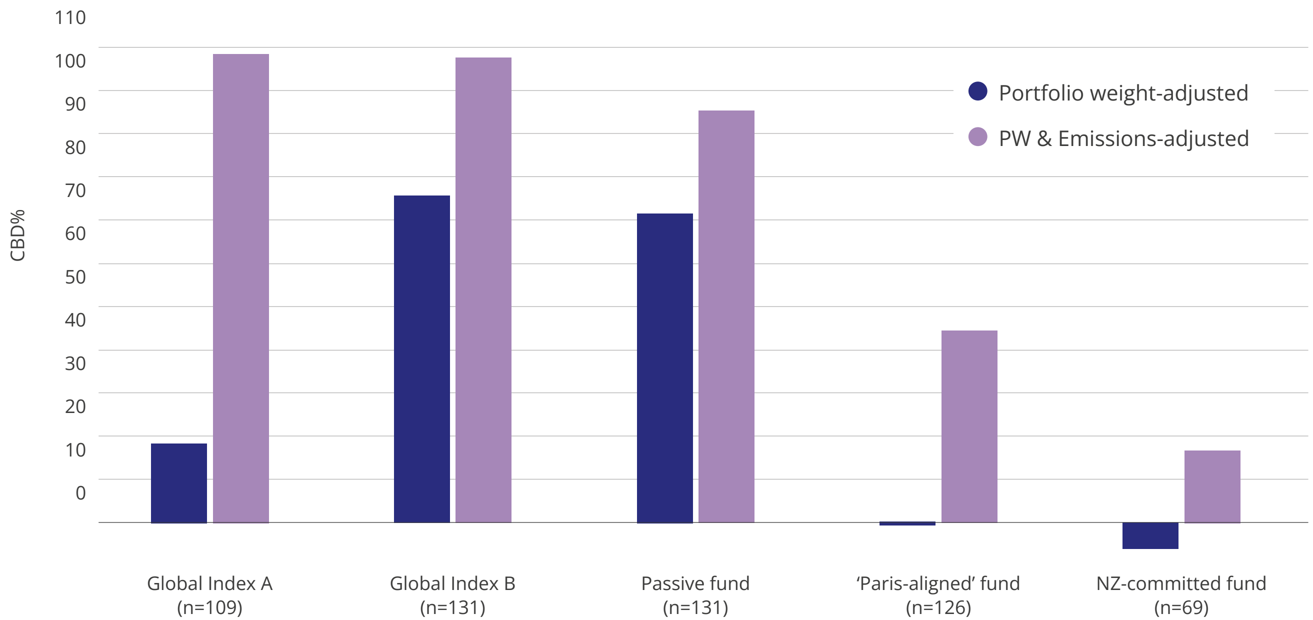
Portfolio alignment outcome

23. The Pensions Board equity portfolio can be considered aligned, achieving a cumulative benchmark divergence of -5.9% when the scores are aggregated by portfolio weight. However, when emissions are included in the weighting, the score increases to 16.3%, implying a degree of misalignment.

24. In order to support the interpretation of these figures, relevant comparators are included in the chart below. The Pensions Board's equity portfolio is labelled 'NZ-committed fund', and is on the right hand side.

PORTFOLIO CBD SCORES

Calculated across two global indices, a passive fund, a 'Paris-Aligned' fund, and a 'Net zero (NZ) committed' fund. Note how the number of stocks covered by the analysis, n, changes across the assessments. A lower score indicates a higher degree of alignment with a 1.5°C pathway. Aggregated CBD scores are weighted either only by portfolio weight (PW; blue columns), or by both portfolio weight and current emissions (lilac columns), according to a sectoral approach for counting emissions scopes.



25. As you can see, the Board's climate alignment compares very favourably to global indexes, the passive fund, and even the 'Paris Aligned' fund (managed to meet the European Paris Aligned Benchmark designation).

26. Data coverage remains a concern, and limitation. Out of 1,139 equity holdings, 69 were covered by the underlying analysis (compared to 109 companies from a global index that was also assessed) 131 companies (a passive fund), and 26 (a 'Paris Aligned' fund).

27. There is further scope for research, and the Stewardship team is actively supporting IIGCC in the development of this methodology, and the Board has played an instrumental role in working with other asset owners to ensure that TPI can scale the breadth and depth of its carbon performance assessments.

Appendix

EMISSIONS SCOPES

Source	Description	Definition
DIRECT	Scope 1	Emissions from sources that are owned or controlled by the reporting company.
INDIRECT	Scope 2	Emissions from consumption of electricity, heat, steam and cooling. This can be calculated via two methods: • **Location-based** refers to emissions calculated through emission rates of the local power grid. • **Market-based** refers to emissions calculated based on purchasing agreements with electricity suppliers. For most corporates, this tends to result in lower estimations than location-based emissions.[9]
	Scope 3	**Upstream:** GHG emissions embedded by processes in the value chain that contribute to a company's products or services.
		Downstream: GHG emissions originating from the activities of customers using a company's products and services.

Endnotes

1 See Task Force on Climate-related Financial Disclosures 2022 Status Report.

2 See EIAG Climate Change Policy.

3 See EIAG Policy and IPCC (2014), Working Group II – Impacts, Adaptation and Vulnerability. Summary for Policymakers.

4 See Investing in a Time of Climate Change (2015), Mercer.

5 See Investing in a Time of Climate Change The Sequel (2019), Mercer.

6 Schedule, paragraph 27(g) of the Regulations.

7 This report includes climate scenario analysis from two sources; that conducted by Mercer (relating to Assets and Funding) and Cardano (Covenant) respectively. Both advisors used “Rapid Transition”, “Orderly Transition”, and “Failed Transition”, and the descriptions above apply to both. In terms of underlying detail and assumptions, the two sources are broadly aligned.

8 IIGCC paper: Assessing climate target alignment with cumulative benchmark divergence – from asset level to portfolio alignment.

9 Jerry Patchell, Can the implications of the GHG Protocol’s scope 3 standard be realized? Journal of Cleaner Production, Volume 185, 2018, Pages 941-958.

10 Greenhouse Gas Protocol. Scope 2 Guidance, accessed 10/03/2022.