

# **The Church of England Funded Pensions Scheme**

Annual Report and Financial Statements  
31 December 2023

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## Trustee's report

The Church of England Pensions Board (the "Board"), as Trustee of The Church of England Funded Pensions Scheme ("CEFPS", or the "Scheme"), is pleased to present the Scheme's annual report for the year ended 31 December 2023.

### Scheme constitution and relationship to the Church of England Pensions Scheme

The Scheme was established in accordance with the Pensions Measure 1997 and commenced on 1 January 1998 to provide defined benefit pensions for clergy and others in the stipendiary ministry.

Benefits arising from service prior to 1998 are the liability of The Church of England Pensions Scheme ("CEPS"), which is wholly funded by the Church Commissioners. The Board administers the CEPS on behalf of the Church Commissioners and, from the members' perspective, runs the CEFPS and the CEPS. 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 CEFPS makes these payments on behalf of the Church Commissioners and is fully reimbursed by them for the pre-1998 element they are responsible for funding. These amounts are not included in the financial statements of the CEFPS.

### 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 2023 to 11 July 2024)

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

### Committee Members (1 January 2023 to 11 July 2024)

<b>Audit and Risk Committee</b>  Maggie Rodger (Chair) Tony King Ian Wilson Helen Ashley Taylor* Canon Susan Pope* Caron Bradshaw OBE*	<b>Pensions Committee</b>  Richard Hubbard (Chair) The Revd Hugh Lee Maggie Rodger Michaela Southworth Ian Wilson
<b>Housing Committee</b>  The Revd Caroline Titley (Chair) Tony King The Revd Canon Eleanor Robertshaw Jonathan Gregory* Tom Paul* Lawrence Santcross* (to December 2023) The Rt Revd Alan Wilson (to February 2024)*	<b>Investment Committee</b>  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.

## Trustee's report (continued)

### Scheme advisors

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

<b>Actuary</b>	Aaron Punwani, Lane Clark and Peacock LLP	
<b>Independent auditors</b>	Crowe U.K. LLP	
<b>Bankers</b>	Lloyds Bank plc	
<b>Investment Advisors</b>	Mercer Ltd	
<b>Investment Custodians</b>	Northern Trust Company Ltd	
<b>Investment Managers (Scheme)</b>	BlackRock Investment Management (UK) Limited	
<b>Investment Managers (Common Investment Fund)</b>	Antin Infrastructure Partners Audax Group Basalt Infrastructure Partners Blackstone Cambridge Associates CBRE Global Investors Colchester Global Investors DBL Partners DIF Management EQT Infrastructure Partners	Igneo Infrastructure Partners Generation Investment Management LLP H.I.G. Capital LLC Insight Investment Management I Squared Global Capital KKR & Co. LP Legal & General Investment Management T Rowe (terminated November 2023) Robeco Institutional Asset Management B.V. (appointed November 2023)

### Investments

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 1998. The CEIFP pools assets to take advantage of economies of scale and reduce risk through diversification, to which the smaller schemes that are also managed by the Board 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 listed equities, the diversified growth pool containing mostly property and private equity, the diversified income pool containing mostly infrastructure assets and private loans, the listed credit pool containing corporate bonds, and the liquidity pool containing cash.

Members can make additional voluntary contributions to secure additional benefits. These are invested in a segregated pool of investments and managed separately.

### Rule changes

There were no changes to the Scheme's rules during 2023. A full copy of the Scheme's rules is available on request.

### The Global Economy and Financial developments

In the global economy, 2023 marked a decisive break from the long period of relatively low inflation and ultra-low interest rates experienced since the 2008 financial crisis, as central banks increased rates to try and curb surging inflation. The dramatic increase in the cost of living has caused much distress in society and, within pensions, higher short term interest rates caused a sharp rise in government and corporate bond yields. Signs that the monetary authorities were starting to have some success in bringing headline inflation under control, has increased market conviction that short term interest rates have peaked, and sparked a sharp recovery in credit and other risk assets towards the end of the year. Nevertheless, 2023 was another tough year for investors.

The Liability Driven Investment (LDI) portfolio of the CEFPS is held outside the CEIFP, and the earlier rise in bond yields depressed the market value of these fixed income securities. However, rising bond yields also benefits scheme funding, by reducing the future value of liabilities (or the lifetime cost of paying pensions). The reduced future value of liabilities and sustained investment returns over the past decade has resulted in an improvement in the expected funding position of the Scheme. This gives members and employers greater security for the future. In line with the current longer-term strategy for the Scheme, the trustees used this increase security to lower holdings in risk assets and increase their holdings of lower risk fixed income assets during the year.

Market sentiment continues to be dominated by the outlook for inflation and whether the major central banks will be able to steer interest rates in a way that avoids a global recession. The coming year will see some 40% of the global populations going to the polls, the war in Ukraine has entered its third year and there are mounting geopolitical tensions in the middle east and in east Asia. Predicting the near-term performance of markets remains as difficult as ever and the Scheme continues to maintain a long-term investment horizon 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. In accordance with the amendment to the Audited Accounts

## Trustee's report (continued)

### Financial developments (continued)

Regulations effective from 1 April 2016, an auditor's statement about contributions is not required for the Scheme as it is a multi-employer scheme with more than 20 participating employers.

### 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.

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. The last assessment was dated April 2022. 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 that 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.

### Membership

The change in membership during the year is as follows:

	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 January	7,799	2,664	10,708	3,769	24,940
New members joining	389	-	-	277	666
Members retiring	(370)	(161)	531	-	-
Members leaving prior to pension age	(280)	280	-	-	-
Deaths	(15)	(7)	(444)	(259)	(725)
Re-entrants (*)	90	(90)	(1)	1	-
Members retiring with full commutation	(6)	(2)	-	-	(8)
Ceased (e.g. dependent children turning 18/23)	-	-	(2)	(4)	(6)
Transfers out	-	(5)	-	-	(5)
Members withdrawn with no liability	(1)	-	-	-	(1)
<b>Total at 31 December</b>	<b>7,606</b>	<b>2,679</b>	<b>10,792</b>	<b>3,784</b>	<b>24,861</b>

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

(\*) Re-entrants are those members who have re-entered the scheme, having previously ceased to be a member of the scheme.

### Pension Increases

The CEFPS rules state that increases will be at the rate of the change in the Retail Prices Index ("RPI") up to 5% in respect of benefits from service prior to 1 January 2008 and RPI up to 3.5% in respect of benefits from service from 1 January 2008 onwards. The change in RPI for the period September to September is the reference period for increases in the CEFPS from 1 April in the following year.

The increase in RPI in the year to 30 September 2023 was 8.9% (2022: 12.6%). Inflation on the Consumer Prices Index measure was 6.7% for the year to 30 September 2023 (2022: 10.1%). Having carefully considered the funding position and other relevant factors, the Trustee decided to award a discretionary increase such that pensions in payment increased by 6.7% from 1 April 2024.

### Member benefit augmentation

At the point of retirement, the benefits payable to certain pensioners are enhanced on grounds of ill-health.

### Transfers

As prescribed by statutory regulations, all transfer payments were calculated in accordance with the methods and assumptions approved by the Scheme's Actuary. No discretionary benefits are included.

### 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 following actuarial advice and having consulted with the responsible bodies (see note 1), and 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 a full 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 2021. This showed that on that date:

- the value of the Technical Provisions was £2,160 million; and
- the value of the net assets (excluding AVCs) was £2,720 million; and
- the projected value of the surplus on an asset lead funding (ALF) basis was £560 million.

The next valuation is due to be carried as at 31 December 2024. As noted above there has been a significant improvement in the funding of the Scheme, and the Scheme's Actuary has estimated the surplus had increased to £800m as at 31 December 2023 on a technical provisions basis.

## Trustee's report (continued)

### Report on actuarial liabilities (continued)

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	2.7% p.a.
RPI	3.6% p.a.
Pension increases:	
Increasing in line with RPI (capped at 5%)	3.4% p.a.
Increasing in line with RPI (capped at 3.5%)	2.9% p.a.
Rate of increase of pensionable stipends	3.4% p.a.
Post-retirement mortality	90% of the S3NA_LV tables projected from 2020 in line with the CMI 2020 extended model with a long-term annual rate of improvement of 1.5% for both males and females

The future service contribution rate calculated to be sufficient to meet the increase in the technical provisions arising from the accrual of additional pensionable service over the next year is 38.8% of pensionable stipend. However, given the substantial surplus in the scheme, and taking into account the assessment of the covenant available to the Scheme, the Board has agreed that contributions from January 2023 will be at the rate of 28% of pensionable stipends – i.e., in line with the future service cost calculated using “best estimate” financial assumptions, and deficit contributions were to cease from 1 January 2023. The contribution rates of pensionable stipend were set as shown in the table below:

	Until 31 March 2022 %	From 1 April 2022 to 31 December 2022 %	From 1 January 2023 %
Normal contributions	31.3	31.3	26.5
Deficit contributions	7.1	3.2	-
Contributions towards administration expenses	*1.5	*1.5	*1.5
<b>Total contribution</b>	<b>39.9</b>	<b>36.0</b>	<b>28.0</b>

\* The allowance for expenses is 1.2% for the Church Commissioners and the Dioceses, with additional contributions of 0.3% of pensionable stipends paid to the Board towards the expenses of administering the Church of England Pensions Measures scheme. For the other Responsible Bodies, the allowance for expenses is 1.5% of pensionable stipends less an annual rebate calculated as £70 p.a. per full-time member in active service each 31 December.

### Investment management

At the end of 2023, 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.

	2023 £'000	2022 £'000	Nature of investment
<i>Return seeking investments</i>			
CEIFP – Public Equity Pool	561,745	747,690	Public equities
CEIFP – Diversified Growth Pool	361,692	357,336	Property unit trusts and private equity
CEIFP – Diversified Income Pool	761,925	667,897	Private infrastructure, private debt and EM sovereign debt
CEIFP – Liquidity Pool	95,431	7,040	Cash
<i>Liability matching investments</i>			
CEIFP – Listed Credit Pool	228,410	195,066	High quality corporate bonds
Liability Driven Investments (“LDI”)	498,571	407,857	Gilts and cash held for reinvestment into gilts
AVCs			
Additional Voluntary Contributions	39,345	35,542	Unit trusts, see below
<b>Total at 31 December</b>	<b>2,547,119</b>	<b>2,418,428</b>	

### 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.

Following the completion of the actuarial valuation and review of strategic asset allocation at the end of 2022, the Trustees identified the need for further investment into additional forms of listed credit and a phased reduction in the allocation to the equity and growth pools (containing the public equity and property and private equity portfolio).

Much of these reductions were achieved towards the end of 2022, through a consolidation of equity managers in the equity pool and through an increase in the allocation to listed credit. However, the continued improvement in the expected funding position of the Scheme allowed a further reduction in the equity position and broadening of the credit exposure. This resulted in the termination of the emerging market equity mandate with T Rowe Price towards the end of 2023 and the funding of a new global high yield credit portfolio with Robeco in the diversified income pool early in 2024.

The annual review of the liability benchmark portfolio of the LDI mandate with Blackrock, to take account of the influence that movements in interest rates and inflation have on the liabilities, led to a further modest increase in the level of interest rate and inflation hedging employed in the liability driven investment portfolio.

### ***Responsible Investment Considerations***

Responsibly investing the pensions assets under the stewardship of the schemes in order to pay pension promises remains at the heart of our work. In May 2023, and informed by the Transition Pathway Initiative analysis, we took the decision to disinvest from the last of our oil and gas holdings in line with the commitments made in 2018. In November 2023, the Board published its Climate Action Plan, which sets out our next steps as an investor to tackle the climate emergency. This includes engagement with companies and sectors that are significant users of fossil fuels, a focus on climate solutions and supporting a just transition. The Board is also continuing to advocate for transformation across the mining sector, addressing matters of safety, human rights and social justice, including through leadership of a new Global Investor Commission on the future of the sector.

The details of the Trustee's policies with respect to environmental, social and governance matters are included in Appendix 1 and 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.

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. 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 SIP was reviewed considering the moves in the portfolio and recent regulatory developments but was unchanged as the moves were consistent with that strategy and objectives previously outlined by the Trustees.

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 sponsors regularly, including on material non-financial matters. 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.

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.

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 divestment 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.

### ***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 a portfolio of Gilts outside the CEIFP in its own LDI account. The gross value of the LDI assets is £705.1m (2022: £725.8m), with net repurchase agreements of -£291.8m (2022: -£318.8m). An additional £0.1m (2022: £0.8m) is held within the LDI account as cash for reinvestment.

## Trustee's report (continued)

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

### **Investment performance**

The overall return on the Scheme's investment assets, including the LDI portfolio, for 2023 was 5.9%

Fears that inflation and associated tightening in monetary policy could prompt a recession plagued markets for much of the year. However, a slowing in the rate of inflation and signs that short-term interest rates had peaked prompted vigorous recovery in developed market equities and the equity pool in the (CEIFP) recorded gains of 7.2% in the final quarter of 2023 and was up 14.3% over the previous year.

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 negative annual return on the Gilts and LDI accounts, albeit posting a strong recovery towards the end of 2023.

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 weighing on the listed credit pool for much of the year, before signs of a peak in short term rates and hopes that the US Federal Reserve would be able to engineer a soft-landing in the US and global economies saw a fall in yields and a sharp contraction in credit spreads, causing strong gains in the listed credit portfolio pool (of 10.8%).

The property and private equity portfolios came under pressure in 2023 (falling by 6.7% and 7.0%) but the diversified income pool fared better (6.2%) supported by gains in our emerging market debt portfolio (15.1%) and infrastructure funds (5.2%) outweighing declines in our private debt and alternative income producing assets.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and consider 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 are invested separately in vehicles chosen in the light of professional advice with particular regard being given to investment performance and the level of administration costs as well as the financial strength of the provider.

Since 1 April 2011, Legal and General Investment Management ("Legal and General") have been the sole AVC provider for contributions received after this date.

Members are provided a wider range of investment choices with Legal and General:

- a core lifestyle arrangement with two options including ethically invested funds; and
- a menu consisting of a more comprehensive range of UK and global passively managed funds including both UK and global ethically invested funds, balanced equity funds, corporate bond funds, gilts funds, and a cash fund.

At the end of 2023 1,755 members (2022: 1,867) had contributions invested under the voluntary arrangements of whom 1,213 (2022: 1,248) were current contributors.

### **Employer related investments**

Details of employer related investments are given in note 15 to the financial statements.

### **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](mailto:pensions@churchofengland.org), or by telephone to 020 7898 1801.

### **Approval**

The Trustee's Report and Statement of Trustee's Responsibilities set out on page 9 were approved by the Trustee on 11 July 2024 and signed on its behalf by:



Clive Mather  
Chairman

## Statement of Trustee's Responsibilities

The Church of England Pensions Board is Trustee of The Church of England Funded Pensions Scheme.

### *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.

## **Independent Auditors' report to the Trustee of The Church of England Funded Pensions Scheme**

### **Opinion**

We have audited the financial statements of The Church of England Funded Pension Scheme ('the Scheme') for the year ended 31 December 2023 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 2023, 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 Auditors' report to the Trustee of The Church of England Funded Pensions Scheme (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](http://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**

Statutory Auditor

London

Date: 11 July 2024

## Fund Account for the year ended 31 December 2023

	Notes	2023 £000	2022 £000
<b>Contributions and other income</b>			
Employer contributions	4	50,754	69,522
Employee contributions	4	3,863	4,342
Transfers in	4	1,226	1,200
Other income	4	2,285	2,334
<b>Total contributions and other income</b>		<b>58,128</b>	<b>77,398</b>
<b>Benefits</b>			
Benefits paid or payable	5	(68,791)	(63,883)
Transfers out		(2,320)	(3,090)
Administrative expenses	6	(4,318)	(3,646)
<b>Total benefits and other expenses paid</b>		<b>(75,429)</b>	<b>(70,619)</b>
<b>Net additions from dealings with members</b>		<b>(17,301)</b>	<b>6,779</b>
<b>Returns on investments</b>			
Investment income	7	(8,466)	1,443
Change in market value of investments	10	148,844	(342,015)
Investment management expenses		(998)	(1,346)
<b>Net returns on investments</b>		<b>139,380</b>	<b>(341,918)</b>
<b>Net increase in fund</b>		<b>122,079</b>	<b>(335,139)</b>
Opening net assets		2,426,119	2,761,258
<b>Closing net assets</b>		<b>2,548,198</b>	<b>2,426,119</b>

Notes 1 to 18 form part of these financial statements.

## Statement of Net Assets available for benefits as at 31 December 2023

	Notes	2023 £000	2022 £000
<b>Investment assets</b>			
Pooled investment vehicles	10	2,112,258	1,975,819
Bonds	10	705,095	725,811
AVC investments	10	39,345	35,542
Other investment balances	10	-	28,858
Amounts receivable under reverse repurchase agreements	10	36,557	75,023
<b>Total investment assets</b>		<b>2,893,255</b>	<b>2,841,053</b>
<b>Investment liabilities</b>			
Derivatives	10,11	(1,375)	-
Other investment balances	10	(7,497)	-
Amounts payable on repurchase agreements	10	(337,264)	(422,625)
<b>Total investment liabilities</b>		<b>(346,136)</b>	<b>(422,625)</b>
<b>Total net investments</b>		<b>2,547,119</b>	<b>2,418,428</b>
Current assets	8	4,861	10,870
Current liabilities	9	(3,782)	(3,179)
<b>Net current assets</b>		<b>1,079</b>	<b>7,691</b>
<b>Total net assets available for benefits</b>		<b>2,548,198</b>	<b>2,426,119</b>

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 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.

Notes 1 to 18 form part of these financial statements.

These financial statements were approved by the Trustee on 11 July 2024 and signed on its behalf by:



Clive Mather  
Chairman

## Notes to the financial statements

### 1. Legal status

The Church of England Funded Pensions Scheme (the “Scheme”) is an occupational pension scheme established under trust. The Scheme was established in accordance with the Pensions Measure 1997 to provide retirement benefits to the clergy and others in the stipendiary ministry.

Many clergy (e.g., parish priests) are office holders rather than employees so those organisations responsible for paying their stipends and pension contributions are known as ‘responsible bodies.’ For consistency with the Pensions SORP and comparability with the financial statements of other pension schemes, these financial statements use the term ‘employer’ for both actual employers as well as for the ‘responsible bodies’. Likewise, the term ‘employee’ in these financial statements means actual employees as well as office holders and other stipendiary clergy who are members of the Scheme.

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.

### 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 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland the Church of England Funded Pensions Scheme 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, and administration costs 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 for AVCs are accounted for on the accruals basis in the payroll month to which they relate.

#### 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 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 AVC investments are also in accumulation funds, which do not pay out investment income.

##### *Investment income*

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.

##### *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 AVC investments are valued based on prices reported by the AVC providers.

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.

#### *Bonds*

Bonds are included at the 'clean' price i.e. excluding any accrued income. Any accrued income is included in other investment balances.

#### *Swaps*

Over the counter ("OTC") swaps are stated at the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.

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) Repurchase agreements

Under repurchase (repo) agreements - the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the Financial Statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability. Cash delivered under reverse repurchase contracts is recognised as an investment receivable in the financial statements. Securities received in exchange are not included as scheme assets.

#### h) Foreign currencies

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

### 4. Contributions and other income

	2023 £000	2022 £000
<b>Employer contributions</b>		
Normal	50,474	61,039
Deficit	-	8,169
Augmentations	217	235
Other	63	79
<b>Total employer contributions</b>	<b>50,754</b>	<b>69,522</b>
<b>Employee contributions</b>		
AVC	3,863	4,342
<b>Total employee contributions</b>	<b>3,863</b>	<b>4,342</b>
<b>Transfers in</b>		
Individual transfers in from other schemes	1,226	1,200
	<b>1,226</b>	<b>1,200</b>
<b>Other income</b>		
Contribution for administration costs	2,285	2,334
	<b>2,285</b>	<b>2,334</b>

No deficit contributions are required from 1 January 2023 under the current Schedule of Contributions.

## Notes to the financial statements (continued)

### 4. Contributions and other income (continued)

Following the actuarial valuation as at 31 December 2021, the contribution rates of pensionable stipend were set as shown in the table below:

	Until 31 March 2022 %	From 1 April 2022 to 31 December 2022 %	From 1 January 2023 %
Normal contributions	31.3	31.3	26.5
Deficit contributions	7.1	3.2	-
Contributions towards administration expenses	*1.5	*1.5	*1.5
<b>Total contribution</b>	<b>39.9</b>	<b>36.0</b>	<b>28.0</b>

\* The allowance for expenses is 1.2% for the Church Commissioners and the Dioceses, with additional contributions of 0.3% of pensionable stipends paid to the Board towards the expenses of administering the Church of England Pensions Measures scheme. For the other Responsible Bodies, the allowance for expenses is 1.5% of pensionable stipends less an annual rebate calculated as £70 p.a. per full-time member in active service each 31 December.

### 5. Benefits paid or payable

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
<b>Benefits</b>		
Pensions	49,346	43,029
Retirement lump sums	18,408	19,925
Lump sum death benefits	971	886
Commutations	66	43
<b>Total benefits</b>	<b>68,791</b>	<b>63,883</b>

### 6. 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:

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Actuarial fees	631	657
Audit fees	51	48
Pension levy	113	168
Investment services	2,579	1,989
Legal advice	84	38
Administration costs	2,028	1,789
VAT rebate	(1,168)	(1,043)
<b>Total administrative expenses</b>	<b>4,318</b>	<b>3,646</b>

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.

### 7. Investment income

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Bonds	6,109	5,135
Deposit interest	63	3
Amounts payable on repurchase agreements	(14,638)	(3,695)
<b>Total net investment income</b>	<b>(8,466)</b>	<b>1,443</b>

## Notes to the financial statements (continued)

### 8. Current assets

	2023	2022
	£000	£000
<b>Debtors</b>		
Employer contributions	4,576	5,981
Inter scheme debtor	-	2,300
Trustee	-	-
Other debtors	205	119
<b>Total debtors</b>	<b>4,781</b>	<b>8,400</b>
Cash	80	2,470
<b>Total current assets</b>	<b>4,861</b>	<b>10,870</b>

Amounts owed from the Trustee represent money paid in advance to the Board towards the administrative expenses the Board incurs on the Scheme's behalf (see note 6). All contributions due to the scheme relate to the month of December 2023 and were paid in full to the scheme within the timescale required under the current Schedule of Contributions.

### 9. Current liabilities

	2023	2022
	£000	£000
Unpaid benefits	749	720
Tax payable – PAYE and NI	2,288	1,918
Other creditors	745	541
<b>Total current liabilities</b>	<b>3,782</b>	<b>3,179</b>

## Notes to the financial statements (continued)

### 10. Investments

#### Repurchase agreements

At the year-end, amounts payable under repurchase agreements amounted to £337.3m (2022: £422.6m) and amounts receivable under reverse repurchase agreements amounted to £37m (2022: £75.0m). Within Bonds reported in Scheme assets, £362.4m (2022: £374.1m) are held by counterparties under repurchase agreements. There is collateral posted at 31 December 2023 with a value of £15.4m (2022: £13.7m) which is comprised of £Nil (2022: £17.3m) pledged to counterparties and £15.4m (2022: £3.6m) pledged from counterparties.

#### Transaction expenses

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.

The Scheme incurred £369,000 (2022: £399,000) in fees from Blackrock and £627,000 (2022: £946,000) in relation to specific repurchase activity. Custody charges are negligible.

The Scheme's directly held investments are registered in the UK. 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.

Following the completion of the actuarial valuation and review of strategic asset allocation at the end of 2022, the Trustees identified the need for further investment into additional forms of listed credit and a phased reduction in the allocation to the equity and growth pools (containing the public equity and property and private equity portfolio).

Much of these reductions were achieved towards the end of 2022, through a consolidation of equity managers in the equity pool and through an increase in the allocation to listed credit. However, the continued improvement in the expected funding position of the Scheme allowed a further reduction in the equity position and broadening of the credit exposure. This resulted in the termination of the emerging market equity mandate with T Rowe Price towards the end of 2023, in anticipation of the funding of a new global high yield credit portfolio with Robeco in the diversified income pool early in 2024.

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

	At 1 January £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	At 31 December £000
Pooled investment vehicles (CEIFP)					
Public equity pool	747,690	53,173	(333,174)	94,056	561,745
Diversified growth pool	357,336	34,645	(9,755)	(20,534)	361,692
Diversified income pool	667,897	95,546	(45,182)	43,664	761,925
Listed credit pool	195,066	80,785	(69,877)	22,436	228,410
Liquidity pool	7,040	294,746	(206,887)	532	95,431
Total pooled investment vehicles (CEIFP)	1,975,029	558,895	(664,875)	140,154	2,009,203
Pooled investment vehicles (cash)	790	152,822	(50,557)	-	103,055
Bonds	725,811	46,773	(73,734)	6,245	705,095
Derivatives	-	-	-	(1,375)	(1,375)
AVC investments					
Legal & General Group AVC scheme	31,306	5,197	(4,640)	3,512	35,375
Re-assure Company sponsored	2,644	-	(400)	275	2,519
Prudential	1,592	-	(174)	33	1,451
Total AVC investments	35,542	5,197	(5,214)	3,820	39,345
	2,737,172	763,687	(794,380)	148,844	2,855,323
Other investment balances	28,858				(7,497)
Amounts receivable on reverse repurchase agreements	75,023				36,557
Amounts payable on repurchase agreements	(422,625)				(337,264)
Total net investments	2,418,428			148,844	2,547,119

## Notes to the financial statements (continued)

### 11. Derivatives

The Trustees have authorised the use of derivatives by their investment managers as part of their investment strategy as follows:

Swaps – The Trustees aim is to match as far as possible the Liability Driven Investment (LDI) portfolio and the Scheme's long term liabilities, in particular in relation to movements in the rate of inflation. Due to the lack of long dated bonds the Trustees have entered into OTC inflation swaps during the year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

The Fund had OTC swaps at year end, as summarised below:

Nature	2023			2022		
	Notional amounts £000	Assets £000	Liabilities £000	Notional amounts £000	Assets £000	Liabilities £000
Inflation swaps	35,260	10,710	(12,085)	-	-	-
Total inflation swaps	<b>35,260</b>	<b>10,710</b>	<b>(12,085)</b>	-	-	-

The inflation swaps have an expiration date of 15 October 2033. There is no collateral on the swap contracts at the year end.

### 12. Fair value of investments

The fair value of investments has been determined using the following fair value 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 31 December at fair value within these levels as follows. The CEIFP's fair value hierarchy is that of the underlying assets held by the Scheme.

	1 £000	2 £000	3 £000	Total £000
<b>At 31 December 2023</b>				
Pooled investment vehicles	813,312	282,718	1,016,228	<b>2,112,258</b>
Bonds	-	705,095	-	<b>705,095</b>
AVC investments	-	38,907	438	<b>39,345</b>
Cash and cash equivalents	(7,497)	-	-	<b>(7,497)</b>
Derivatives	-	(1,375)	-	<b>(1,375)</b>
Amounts receivable on reverse repurchase agreements	-	36,557	-	<b>36,557</b>
Amounts payable on repurchase agreements	-	(337,264)	-	<b>(337,264)</b>
Total investments	<b>805,815</b>	<b>724,638</b>	<b>1,016,666</b>	<b>2,547,119</b>
<b>At 31 December 2022</b>				
Pooled investment vehicles	847,857	240,823	887,139	<b>1,975,819</b>
Bonds	-	725,811	-	<b>725,811</b>
AVC investments	-	34,568	974	<b>35,542</b>
Cash and cash equivalents	28,858	-	-	<b>28,858</b>
Amounts receivable on reverse repurchase agreements	-	75,023	-	<b>75,023</b>
Amounts payable on repurchase agreements	-	(422,625)	-	<b>(422,625)</b>
Total investments	<b>876,715</b>	<b>653,600</b>	<b>888,113</b>	<b>2,418,428</b>

Pooled investment vehicles includes the fair value levels of the underlying investments in the Church of England Investment Fund for Pensions. For more details, see Appendix 2, Note 9

## Notes to the financial statements (continued)

### 13. 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 2023 £000	Total 2022 £000
		Currency	Interest rate	Other price		
Pooled investment vehicles (CEIFP)	(see Investment Risks for the CEIFP in Appendix 2)				2,009,203	1,975,029
Pooled investment vehicles (cash)	●	○	○	○	103,055	790
Bonds	●	○	●	○	705,095	725,811
<b>Total LDI investment</b>					<b>2,817,353</b>	<b>2,701,630</b>
AVCs	(not considered significant in relation to overall Scheme risks)				39,345	35,542
Cash and cash equivalents	●	○	○	○	(7,497)	28,858
Derivatives	●	○	○	○	(1,375)	-
Amounts receivable on reverse repurchase agreements	○	○	●	○	36,557	75,023
Amounts repayable on repurchase agreements	○	○	●	○	(337,264)	(422,625)
<b>Total investments</b>					<b>2,547,119</b>	<b>2,418,428</b>

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 investment risks, including credit 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.

These investment objectives and risk limits for directly held investments are implemented through the investment management agreement in place with the Scheme's investment managers. 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.

#### Investment strategy

The split between return seeking and liability matching assets is determined by the characteristics of the Scheme, in particular its demographic profile, the spread of time over which its liabilities fall due, its funding level and the appetite for risk of the Trustee and the Scheme's sponsors.

Most of the liability matching investments are held in a separate LDI account, which is constructed to reflect the profile of future expected beneficiary payments. A small proportion of the liability matching investments remain in the CEIFP in the Listed Credit portfolio. All of the return seeking investments continue to be held wholly within the CEIFP.

#### 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 Scheme is subject to credit risk through its investments in bonds, OTC derivatives, repurchase agreements, short term borrowings and cash balances. The Scheme 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.

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.

## Notes to the financial statements (continued)

### 13. 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. Collateral is also in place in respect of Repurchase Agreements to mitigate credit risk.

The Scheme'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:

	2023 £000	2022 £000
UCITS	103,055	790
Common Investment Fund	2,009,203	1,975,029
Total pooled investment vehicles	2,112,258	1,975,819

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

#### 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 Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets in the CEIFP. 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.

#### 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 Scheme is subject to interest rate risk due to its bond holdings in the Listed Credit pool in the CEIFP and Liability Driven Investment (LDI) portfolio and because the discount rate used to measure the Scheme's actuarial liabilities is in part derived from prevailing interest rates.

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 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.

The main problem identified by the so-called gilt crisis of 2022 was primarily to do with leveraged LDI positions, where the magnitude and speed of the move caused some pension funds to struggle to meet their collateral requirements. Although the schemes managed by the Trustees have LDI strategies the CEFPS scheme was able to meet its collateral requirements. The CEFPS maintains a collateral buffer in excess of regulatory guidance. 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 Scheme's return seeking portfolio is subject to price risk which principally relates to direct and indirect equity holdings, infrastructure equity and investment in property in the CEIFP. The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

#### Investment risk in relation to AVC investments

Investment risk relating to the AVC investments is not considered to be significant in relation to the overall investment risks of the Scheme.

## Notes to the financial statements (continued)

### 14. Concentration of investments

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

	2023		2022	
	£000	%	£000	%
CEIFP public equity pool	561,744	22.0	747,690	30.8
CEIFP diversified growth pool	361,692	14.2	357,336	14.7
CEIFP diversified income pool	761,925	29.9	667,897	27.5
UK Treasury 0.125% 2029 Index Linked	151,484	5.9	141,194	5.8

### 15. AVC investments

AVCs are invested separately from the main defined benefit investments to secure additional benefits on a money purchase basis for those members electing to pay AVCs. Most AVCs are invested in a Group AVC Scheme with Legal and General Investment Management which provides wide investment choice and a single administration platform. The value of this AVC arrangement is £35,375,000 (2022: £31,306,000). Prior to this, AVC contributions were invested with Prudential and another Legal & General fund in with-profits investments totalling £3,971,000 at 31 December 2023 (2022: £4,236,000).

### 16. Employer related investments

There were no employer-related investments at the year end except for £4,576,000 (2022: £5,981,000) employer contributions, which represent 1.8% (2022: 2.5%) of total net assets (see Note 9).

### 17. Related party transactions

One Board member (2022: none) has retired from service under the Scheme and is in a receipt of a pension on normal terms.

### 18. 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 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 £0.5m. The financial statements do not include a liability due to the immateriality of the total estimated costs.

# Actuary's certification of schedule of contributions

## The Church of England Funded Pensions Scheme

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: **The Church of England Funded Pensions Scheme**

### 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 can be expected to continue to be met for the period for which the schedule is to be in force.

### 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 1 December 2022.

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:

1 December 2022

Name:

*Aaron Punwani*  
*Appointed Scheme Actuary*  
*Fellow of the Institute and Faculty of Actuaries*

Address:

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

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## APPENDIX 1

### Ethical Investment Approach of the Church of England Pensions Board

The Pensions Board receives ethical investment advice from the Church's Ethical Investment Advisory Group (EIAG). The purpose of the EIAG is to support the Board to act as a distinctively Christian – and Anglican – institutional investor. The EIAG develops ethical investment advice, and the Board develops and approves investment policies based on this advice. EIAG advice and Board's policies are published on the Church of England website.

The EIAG consists of a representative of each National Investing Body of the Church of England (the "NIBs": the Church Commissioners, the CBF Church of England Funds, and the Pensions Board), 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 Pensions Board has published a [Stewardship Report 2023](#) which has been submitted to the FRC, in accordance with the FRC Stewardship Code 2020. In 2021, 2022 and 2023, 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 Board is a signatory 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 Board recognises climate change as a distinct ethical and responsible investment issue and invests in line with a climate change policy, and a Climate Action Plan, published in November 2023. 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 Board expects companies in which it invests 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. 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 Board 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 Pensions Board does 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 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. 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 Board determines whether to disinvest. The Board expects 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

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. In 2023 the Board also took the decision to restrict investments in oil and gas companies, on the basis of a combination of third party and in-house transition assessment, after a 5 year intensive programme of engagement. This is outlined in the

Board's Climate Action Plan (published November 2023), along with details of a change in our climate stewardship to focus on demand side companies, rather than supply.

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.

The Board has published a full Stewardship Report for 2023 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. Relevant summaries are contained in the implementation statements for each scheme, and for more details, please see the information provided in the [Stewardship Report](#).

#### **Key future focus areas in 2024, building on previous year's work**

##### **Systemic stewardship:**

- Through the Global Investor Commission on Mining 2030 develop an investor vision for socially and environmentally responsible mining.
- Develop a responsible investor response to conflict and extraction including supporting the creation of a Global Centre for Peacebuilding, Reconciliation and Business with an initial focus on conflicts in five countries.
- Open the Global Tailings Institute in South Africa, launch the first global database of tailings dams together with ICOLD and develop an investor position on legacy/lost tailings facilities.
- Establish an asset owner dialogue on the future role of pension funds investing in the UK water industry.
- Retain stewardship as an active part of our investment process, including manager monitoring and selection, assessment of risks, due diligence, voting, screening, etc.

##### **Climate & Biodiversity:**

- Develop the Board's approach on biodiversity aligned with TNFD that includes portfolio analysis, reporting and stewardship.
- Implement commitments made within the Climate Action Plan, meet TCFD requirements and ensure alignment of the portfolio with the Net Zero Investment Framework.
- To continue to lead the Emerging Markets Just Transition Initiative and integrate the Initiative Principles into Board approach and manager selection related to emerging markets.
- Lead 'demand' side fossil fuel engagement approach and advocate for greater focus on demand by CA100+.
- Pilot new net zero standard on diversified mining.

##### **Social & Governance:**

- Develop and implement a Social Action Plan.
- Launch the Fair Reward Framework and use this to inform proxy voting at company AGMs.
- Continue to support adoption and implementation of the Asset Owner Diversity Charter.

## **Appendix 2**

### **The Church of England Investment Fund for Pensions**

Annual Report and Financial Statements

31 December 2023

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## 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 2023.

### 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.

### The Global Economy and Financial developments

In the global economy, 2023 marked a decisive break from the long period of relatively low inflation and ultra-low interest rates experienced since the 2008 financial crisis, as central banks increased rates to try and curb surging inflation. The dramatic increase in the cost of living has caused much distress in society and, within pensions, higher short term interest rates caused a sharp rise in government and corporate bond yields. Signs that the monetary authorities were starting to have some success in bringing headline inflation under control, has increased market conviction that short term interest rates have peaked, and sparked a sharp recovery in credit and other risk assets towards the end of the year. Nevertheless, 2023 was another tough year for investors.

Although the schemes Liability Driven Investment (LDI) portfolios are held outside the CEIFP, the earlier rise bond yields depressed the market value of these fixed income securities. However, rising bond yields also benefits scheme funding, by reducing the future value of liabilities (or the lifetime cost of paying pensions). The reduced future value of liabilities and sustained investment returns over the past decade, has resulted in the Defined Benefit (DB) schemes being fully funded as at the end of 2023. This gives members and employers greater security for the future. The trustees of the schemes used this increase security to lower holdings in risk assets and increase their holdings of lower risk fixed income assets during the course of the year and this is reflected in movements in the CEIFP assets.

Market sentiment continues to be dominated by the outlook for inflation and whether the major central banks be able to steer interest rates in a way that avoids a global recession. The coming year will see some 40% of the global populations going to the polls, the war in Ukraine has entered its third year and there are mounting geopolitical tensions in the middle east and in east Asia. Predicting the near-term performance of markets remains as difficult as ever and the schemes continue to maintain a long-term investment horizon and hold a well-diversified portfolio.

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

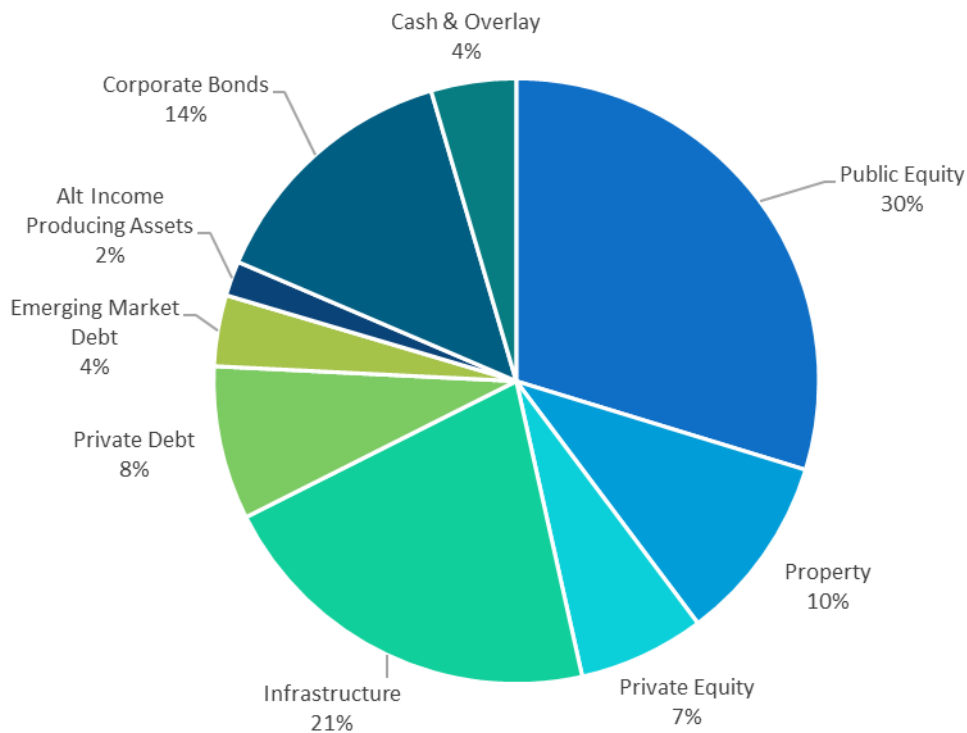
We pool most of the individual pension scheme assets for investment purposes in the CEIFP. This allows our smaller schemes to access economies of scale and investment opportunities that might not be available to them otherwise.

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 2023.



Higher UK Gilt yields, together with cost savings and sustained investment returns over time have driven improvements in the funding level of the pension schemes investing in the CEIFP. As a result, we have progressively reallocated investments away from so called “growth assets” (like developed and emerging equities) into alternative, diversified and traditionally less volatile fixed income 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 and consolidate the number of asset managers we work with, delivering recurring cost savings to members and employers (who bear the cost of scheme administration). At the end of 2023, the Fund’s assets within the CEIFP were managed by 17 investment managers (having terminated the emerging market equity mandate with T Rowe Price in December 2023).

Fund manager	Description
Antin Infrastructure Partners	Pooled infrastructure fund
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 Infrastructure Partners	Pooled infrastructure fund
Generation Investment Management LLP	Global equities and private equity
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

## Investment Performance

Total assets of the three schemes for which the Church of England Pension Board (CEPB) is trustee returned 5.4%, while the assets within the CEIFP (which excludes the Liability Driven Investment portfolio) returned 7.3% in 2023.

The longer-term annualised returns to 31 December 2023 for each of the broad asset classes are set out below, including Inception to Date ("ITD") All figures are net of fund management fees and asset class returns are shown in Sterling terms.

Investment returns to 31st December 2023	£m	3 Mos.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	ITD
<b>CEPB Total Assets New</b>	<b>3,054</b>	<b>5.8</b>	<b>5.4</b>	<b>1.1</b>	<b>5.5</b>	<b>6.6</b>	<b>7.5</b>
<b>CEPB Total Assets ex LDI*</b>	<b>2,350</b>	<b>3.6</b>	<b>7.3</b>	<b>5.8</b>	<b>8.0</b>	<b>7.8</b>	<b>8.1</b>
<b>Public Equity Pool</b>	<b>700</b>	<b>7.2</b>	<b>14.3</b>	<b>5.5</b>	<b>10.2</b>	<b>8.8</b>	<b>8.7</b>
Global Equities	690	8.3	17.4	9.4	11.5	11.0	9.1
Emerging Market Equities	00	-3.6	-7.8	-8.6	1.1	5.0	4.1
Public Equity Cash	10	1.2	4.0	0.9	--	--	0.2
Public Equity Hedge	00	2.9	5.1	-1.9	--	--	0.3
<b>Diversified Growth Pool</b>	<b>394</b>	<b>-3.6</b>	<b>-5.4</b>	<b>4.8</b>	<b>3.6</b>	<b>7.0</b>	<b>3.6</b>
Property	232	-4.7	-6.7	4.2	2.8	6.6	3.4
Private Equity	157	-4.5	-7.0	8.5	--	--	-0.8
Diversified Growth Cash	04	0.7	2.9	-3.4	--	--	--
Diversified Growth Hedge	01	4.2	4.7	-3.4	--	--	-0.4
<b>Diversified Income Pool</b>	<b>823</b>	<b>1.8</b>	<b>6.2</b>	<b>9.7</b>	<b>8.6</b>	<b>7.6</b>	<b>8.0</b>
Infrastructure	489	0.6	5.2	14.7	12.0	10.5	10.5
Private Debt	190	-2.8	-1.1	6.4	3.5	--	4.9
Emerging Market Debt	88	5.8	15.1	3.8	4.2	--	4.3
Alt Income Producing Assets	43	-2.7	-8.4	4.5	--	--	-17.0
Diversified Income Cash	11	0.8	2.0	-1.9	--	--	-1.5
Diversified Income Hedge	02	3.3	4.5	-1.8	--	--	0.0
<b>Listed Credit Pool</b>	<b>327</b>	<b>10.0</b>	<b>10.8</b>	<b>-4.7</b>	<b>0.3</b>	<b>3.2</b>	<b>5.5</b>
<b>Liquidity Pool (Cash)</b>	<b>105</b>	<b>1.4</b>	<b>4.1</b>	<b>1.9</b>	<b>0.6</b>	<b>-0.6</b>	<b>0.3</b>
<b>Gilts &amp; LDI</b>	<b>704</b>	<b>14.7</b>	<b>-2.6</b>	<b>-16.8</b>	<b>--</b>	<b>--</b>	<b>-9.9</b>

Fears that inflation and associated tightening in monetary policy could prompt a recession plagued markets for much of the year. However, a slowing in the rate of inflation and signs that short-term interest rates had peaked prompted vigorous recovery in developed market equities and the equity pool in the (CEIFP) recorded gains of 7.2% in the final quarter of 2023 and was up 14.3% over the previous year. US shares fared the best, with the with the Nasdaq returning 14% and the S&P 500 ending the quarter near its all-time high. Equity performance was extremely concentrated with the so called 'magnificent seven' generating much of the gains in the developed equity markets. A poor performance from Chinese equities meant that emerging market equities tends to lag developed equity markets.

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 negative annual return on the Gilts and LDI accounts, albeit posting a strong recovery towards the end of 2023.

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 weighing on the listed credit pool for much of the year, before signs of a peak in short term rates and hopes that the US federal Reserve would be able to engineer a soft-landing in the US and global economies saw a fall in yields and a sharp construction in credit spreads, causing gains in the listed credit portfolio pool (of 10.8%).

The property and private equity portfolios came under pressure in 2023 (falling by 6.7% and 7.0%) but the diversified income pool fared better (6.2%) supported by gains in our emerging market debt portfolio (15.1%) and infrastructure funds (5.2%) outweighing declines in our private debt and alternative income producing assets.

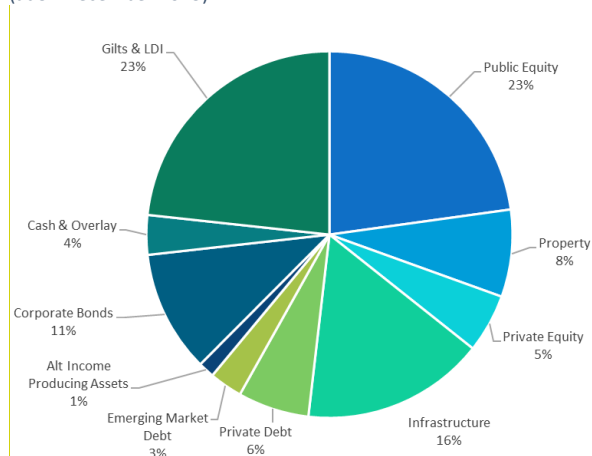
## Responsible Investment Considerations

Responsibly investing the pensions assets under the stewardship of the schemes in order to pay pension promises remains at the heart of our work. In May 2023, and informed by the Transition Pathway Initiative analysis, we took the decision to disinvest from the last of our oil and gas holdings in line with the commitments made in 2018. In November, the Board published its Climate Action Plan, which sets out our next steps as an investor to tackle the climate emergency. This includes engagement with companies and sectors that are significant users of fossil fuels, a focus on climate solutions and supporting a just transition. The Board is also continuing to advocate for transformation across the mining sector, addressing matters of safety, human rights and social justice, including through leadership of a new Global Investor Commission on the future of the sector.

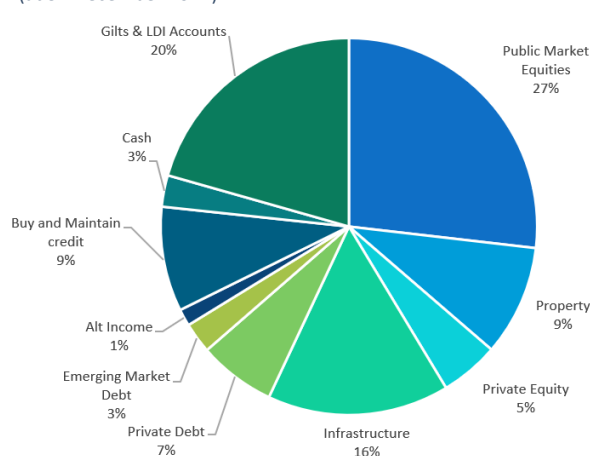
## Trustee's report (continued)

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 as at the 31 December 2023 and how the position compares to that as at 31 December 2022.

Asset Allocation of Total Assets  
(at 31 December 2023)



Asset Allocation of Total Assets  
(at 31 December 2022)



### 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 CEIPF 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 2023 these fees (including those charged by Northern Trust as custodian) were £5.6m (2022: £5.9m). This equated to 0.24% (2022: 0.26%) 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 11 July 2024 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 2023 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 2023 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.

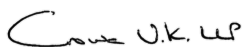
These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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](http://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**

Statutory Auditor

London

11 July 2024

## Statement of total return for the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Change in market value of investments	6	95,202	(145,665)
Change in market value of investment cash and other investment balances	6	11,403	(18,242)
Total change in market value		106,605	(163,907)
Income	4	63,749	66,350
Expenses	5	(5,898)	(9,468)
Changes in net assets attributable to unit holders from investment activities		164,456	(107,025)

## Statement of changes in net assets attributable to unit holders for the year ended 31 December 2023


	Notes	2023 £000	2022 £000
Opening net assets attributable to unit holders		2,303,168	2,729,043
Amounts receivable on issue of units	11	1,045,892	909,022
Amounts payable on cancellation of units	11	(1,165,285)	(1,227,872)
Net assets before change from investment activities		2,183,775	2,410,193
Changes in net assets attributable to unit holders from investment activities	11	164,456	(107,025)
Closing net assets attributable to unit holders		2,348,231	2,303,168

## Statement of net assets attributable to unit holders as at 31 December 2023

	Notes	2023 £000	2022 £000
<b>Investment assets</b>			
Equities	6	676,103	803,969
Bonds	6	386,786	270,758
Pooled investment vehicles	6	1,092,624	1,091,145
Derivative contracts	8	12,122	3,333
Other investments	6	40	320
Investment cash	6	170,612	134,534
Other investment balances	6	16,845	18,751
Total assets		2,355,132	2,322,810
<b>Investment liabilities</b>			
Derivative contracts	8	(6,867)	(17,417)
Investment cash	6	(3)	-
Other investment balances	6	(31)	(2,225)
Total investment liabilities		(6,901)	(19,642)
Total net assets attributable to unit holders	11	2,348,231	2,303,168
<b>Participants' funds</b>	11		
The Church of England Funded Pensions Scheme		2,009,203	1,975,029
The Church Workers Pensions Fund		297,986	303,544
The Church Administrators Pensions Fund		41,042	24,595
Total participants' funds		2,348,231	2,303,168

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

These financial statements were approved by the Trustee on 11 July 2024 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

	2023 £000	2022 £000
Equities	15,517	24,866
Bonds	18,679	9,869
Pooled investment vehicles	23,353	29,504
Cash and cash equivalents	6,200	2,111
<b>Total income</b>	<b>63,749</b>	<b>66,350</b>

### 5 Expenses

	2023 £000	2022 £000
Investment managers' fees	5,898	9,468
<b>Total expenditure</b>	<b>5,898</b>	<b>9,468</b>

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 £000	Purchases and derivative payments £000	Disposals and derivative receipts £000	Change in market value £000	At 31 December £000
Equities	803,969	226,199	(436,165)	82,100	676,103
Bonds	270,758	119,417	(15,566)	12,177	386,786
Pooled investment vehicles	1,091,145	126,068	(84,788)	(39,801)	1,092,624
Other investments	(395)	23,380	(22,981)	5	9
Net derivative contracts (note 8)	(14,085)	118,340	(139,721)	40,721	5,255
	<b>2,151,392</b>	<b>613,404</b>	<b>(699,221)</b>	<b>95,202</b>	<b>2,160,777</b>
Investment cash	134,535			2,037	170,609
Other investment balances	17,241			9,366	16,845
<b>Total investments</b>	<b>2,303,168</b>			<b>106,605</b>	<b>2,348,231</b>
Analysed between:					
Investment assets	2,322,810				2,355,132
Investment liabilities	(19,642)				(6,901)
<b>Total investments</b>	<b>2,303,168</b>				<b>2,348,231</b>

Other investment balances include the following balances

	2023 £000	2022 £000
Accrued income	12,151	9,943
Pending trade sales	-	284
Pending trade purchases	-	(311)
Variation margin	4,694	7,325
<b>Total other investment balances</b>	<b>16,845</b>	<b>17,241</b>

During the year investments in the emerging market equity portfolio with T Rowe Price were terminated for a total of £138.1m. In addition, there were 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. A selection process for a High Yield Credit manager was undertaken during 2023, with Robeco selected as the chosen manager, and implementation to commence in 2024.

## 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:

	2023			2022		
	Commission £000	Other charges £000	Total £000	Commission £000	Other charges £000	Total £000
Equities	251	277	528	323	235	558
	251	277	528	323	235	558

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

	2023 £000	2022 £000
Equities	80,401	92,777
Property	228,065	259,186
Cash	13,106	13,074
Private equity	109,460	92,790
Infrastructure	471,236	440,890
Private debt	190,356	192,428
Total pooled investment vehicles	1,092,624	1,091,145

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.

	2023 \$000	2023 £000	2022 \$000	2022 £000
Investments	239,825	177,152	225,813	186,504
Current assets	30,675	22,659	20,584	17,000
Current liabilities	(12,800)	(9,455)	(13,410)	(11,076)
Total net assets	257,700	190,356	232,987	192,428

### 7 Investment analysis

#### Investments of over 5% of net assets

The Fund holds two investments of over 5% of net assets, representing 14.9% of net assets (2022: two assets representing 16.2% of net assets).

	2023 £000	2022 £000
CBRE GIP GA Fund	158,413	180,518
Thorney Island Limited Partnership	190,356	192,428
Total	348,769	372,946

#### Employer related investments

There were no employer related investments as at 31 December 2023 (2022: none).

## Notes to the financial statements (continued)

### 8 Derivatives

	2023			2022		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
Futures – equities	82	-	82	-	(72)	(72)
Futures – bonds	3,929	(3,827)	102	563	(2,759)	(2,196)
Forward foreign currency contracts	8,111	(3,040)	5,071	2,769	(14,586)	(11,817)
<b>Total derivatives</b>	<b>12,122</b>	<b>(6,867)</b>	<b>5,255</b>	<b>3,332</b>	<b>(17,417)</b>	<b>(14,085)</b>

#### 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:

Type of future	2023			2022		
	Exposure Value £000	Assets £000	Liabilities £000	Exposure Value £000	Assets £000	Liabilities £000
Equities futures: UK	-	-	-	-	-	-
Equities futures: Overseas	3,362	82	-	2,563	-	(72)
<b>Total equities futures</b>	<b>3,362</b>	<b>82</b>	<b>-</b>	<b>2,563</b>	<b>-</b>	<b>(72)</b>
Bonds: UK	76,987	3,929	-	46,753	-	(2,739)
Bonds: Overseas	(73,991)	-	(3,827)	(61,510)	563	(20)
<b>Total bonds futures</b>	<b>2,996</b>	<b>3,929</b>	<b>(3,827)</b>	<b>(14,757)</b>	<b>563</b>	<b>(2,759)</b>

All contracts have expiry dates between 7 March 2024 and 28 March 2024. Included within other investment balances is an asset of £4,694,000 (2022: £7,325,000) 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 2023 £000	Liabilities at 31 December 2023 £000
<b>US Dollar</b>			
Forward to buy US Dollars	\$109,344,789	-	(1,308)
Forward to sell US Dollars	\$890,834,949/\$11,281,264	7,610	(19)
<b>Euros</b>			
Forward to buy Euros	€2,462,798	11	-
Forward to sell Euros	€6,122,000/€146,219,362	39	(624)
<b>Japanese Yen</b>			
Forward to buy Japanese Yen	¥38,080,160	8	-
Forward to sell Japanese Yen	¥2,882,257,260	-	(590)
<b>Other currencies</b>			
Forward to buy other currencies		379	(79)
Forward to sell other currencies		64	(420)
		<b>8,111</b>	<b>(3,040)</b>

All contracts had maturity dates falling between 4 January 2024 and 11 March 2024.

## 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 2023:

Level	1	2	3	Total 2023
Investments	£000	£000	£000	£000
Equities	676,045	-	58	676,103
Bonds	-	371,469	15,317	386,786
Pooled investment vehicles	9,815	-	1,082,809	1,092,624
Other investments	-	-	9	9
Derivatives contracts	185	5,070	-	5,255
Investment cash	170,609	-	-	170,609
Other investment balances	12,151	4,694	-	16,845
Total investments	868,805	381,233	1,098,193	2,348,231

Analysed by pool:

Level	1	2	3	Total 2023
Investments	£000	£000	£000	£000
Public equity pool	699,137	302	206	699,645
Diversified growth pool	27,730	694	365,145	393,569
Diversified income pool	20,488	69,978	732,736	823,202
Liquidity pool	105,377	-	50	105,427
Listed credit pool	16,073	310,259	56	326,388
Total investments	868,805	381,233	1,098,193	2,348,231

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
Investments	£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

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 2023 £000	Total 2022 £000
		Currency	Interest rate	Other price		
Equities	○	●	○	●	676,103	803,969
Bonds	●	○	●	○	386,786	270,758
Pooled investment vehicles	○	○	○	○	1,092,624 <sup>1</sup>	1,091,145
Other investments (net)	●	○	○	○	9	(395)
Derivatives contracts (net)	●	○	○	○	5,255	(14,085)
Investment cash	●	○	○	○	170,609	134,535
Other investment balances	●	○	○	○	16,845	17,241
<b>Total investments</b>					<b>2,348,231</b>	<b>2,303,168</b>

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

<sup>1</sup> 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.

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Bonds	386,786	270,758
Pooled investment vehicles	1,092,624	1,091,145
Derivatives: forwards	8,111	2,769
Investment cash	170,609	134,535
<b>Total investments exposed to credit risk</b>	<b>1,658,130</b>	<b>1,499,207</b>

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:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Limited Partnerships	786,003	735,829
SICAVs (*)	13,106	13,074
Exchange Traded Funds	-	8,864
Cooperatief U.A (**)	78,032	72,093
FCP (**)	161,663	202,563
Property Authorised Investment Fund	5,992	6,320
Property Unit Trusts	23,713	25,169
Other funds	24,115	27,233
<b>Total pooled investment vehicles</b>	<b>1,092,624</b>	<b>1,091,145</b>

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

(\*\*) A Cooperatief 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 2023 £000	Net exposure 2022 £000
Pounds sterling	480,705	806,827	1,287,532	1,224,247
US Dollars	1,291,829	(641,802)	650,027	627,176
Euros	361,939	(129,888)	232,051	206,067
Japanese Yen	43,867	(15,830)	28,037	28,688
Other currencies	164,821	(19,307)	145,514	228,806
Total investments (excluding forwards)	2,343,161	-	2,343,161	2,314,984
Forwards	5,070	-	5,070	(11,816)
Total investments	2,348,231	-	2,348,231	2,303,168

#### 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.

Following the so-called UK Gilt crisis in September 2022 the Pension Regulator has announced new guidance and measures for LDI strategies. As we have noted the LDI strategies managed for the schemes by BlackRock sit outside the CEIFP. However, the Trustees continue to adopt a prudent approach in the LDI strategies to ensure 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 2023 £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 2023 £000
The Church of England Funded Pensions Scheme	195,066	80,785	(69,877)	22,436	228,410
The Church Workers Pension Fund					
Pension Builder Classic	-	8,450	(1,840)	482	7,092
Defined Benefit Scheme – Employer section	1,749	59,796	(6,784)	3,317	58,078
Defined Benefit Scheme – Life Risk section	544	17,728	(5,940)	994	13,326
The Church Workers Pension Fund	2,293	85,974	(14,564)	4,793	78,496
The Church Administrators Pension Fund	12,687	8,704	(3,700)	1,791	19,482
<b>Total Listed credit pool</b>	<b>210,046</b>	<b>175,463</b>	<b>(88,141)</b>	<b>29,020</b>	<b>326,388</b>

Public equity pool:

	At 1 January 2023 £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 2023 £000
The Church of England Funded Pensions Scheme	747,690	53,173	(333,174)	94,056	561,745
The Church Workers Pension Fund					
Pension Builder 2014	17,099	36,077	(16,941)	3,529	39,764
Pension Builder Classic	56,576	66,814	(47,028)	7,601	83,963
Defined Benefit Scheme – Employer section	14,419	29,897	(46,315)	2,111	112
Defined Benefit Scheme – Life Risk section	3,103	1,637	(4,956)	216	-
The Church Workers Pension Fund	91,197	134,425	(115,240)	13,457	123,839
The Church Administrators Pension Fund	5,765	13,980	(7,033)	1,349	14,061
<b>Total public equity pool</b>	<b>844,652</b>	<b>201,578</b>	<b>(455,447)</b>	<b>108,862</b>	<b>699,645</b>

Diversified growth pool:

	At 1 January 2023 £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 2023 £000
The Church of England Funded Pensions Scheme	357,336	34,645	(9,755)	(20,534)	361,692
The Church Workers Pension Fund					
Pension Builder 2014	9,228	3,022	(5,502)	(363)	6,385
Pension Builder Classic	25,496	1,522	(12,650)	(935)	13,433
Defined Benefit Scheme – Employer section	36,987	2,377	(26,489)	(816)	12,059
Defined Benefit Scheme – Life Risk section	982	1,615	(2,590)	(7)	-
The Church Workers Pension Fund	72,693	8,536	(47,231)	(2,121)	31,877
The Church Administrators Pension Fund	-	-	-	-	-
<b>Total diversified growth pool</b>	<b>430,029</b>	<b>43,181</b>	<b>(56,986)</b>	<b>(22,655)</b>	<b>393,569</b>

Diversified income pool:

	At 1 January 2023 £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 2023 £000
The Church of England Funded Pensions Scheme	667,897	95,546	(45,182)	43,664	761,925
The Church Workers Pension Fund					
Pension Builder 2014	15,690	12,076	(15,150)	828	13,444
Pension Builder Classic	47,693	20,500	(41,960)	2,067	28,300
Defined Benefit Scheme – Employer section	70,144	19,318	(78,178)	810	12,094
Defined Benefit Scheme – Life Risk section	1,262	2,333	(3,612)	17	-
The Church Workers Pension Fund	134,789	54,227	(138,900)	3,722	53,838
The Church Administrators Pension Fund	6,104	1,800	(900)	435	7,439
<b>Total diversified income pool</b>	<b>808,790</b>	<b>151,573</b>	<b>(184,982)</b>	<b>47,821</b>	<b>823,202</b>

## Notes to the financial statements (continued)

### 11. Member schemes' participation (continued)

Liquidity pool:

	At 1 January 2023 £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 2023 £000
The Church of England Funded Pensions Scheme	7,040	294,746	(206,887)	532	95,431
The Church Workers Pension Fund					
Pension Builder 2014	150	30,686	(30,914)	116	38
Pension Builder Classic	233	35,821	(36,052)	120	122
Defined Benefit Scheme – Employer section	1,286	75,034	(67,048)	433	9,705
Defined Benefit Scheme – Life Risk section	902	22,368	(23,394)	195	71
The Church Workers Pension Fund	2,571	163,909	(157,408)	864	9,936
The Church Administrators Pension Fund	40	15,442	(15,434)	12	60
Total liquidity pool	9,651	474,097	(379,729)	1,408	105,427

### 12. Contingencies and commitments

In the opinion of the Trustee, the Fund had no contingent liabilities at 31 December 2023 (2022: nil).

As at 31 December 2023, the Board had made the following commitments:

	2023 £m	2022 £m
Pooled investment vehicles (equity)	2.8	4.2
Pooled investment vehicles (private equity)	113.5	151.7
Pooled investment vehicles (property)	-	-
Pooled investment vehicles (infrastructure)	199.3	256.1
Pooled investment vehicles (private debt)	10.2	10.1
Total commitments	325.8	422.1

### 13. Related party transactions

Two Board members (2022: 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

### 2023 Engagement Policy Implementation Statement

#### Church of England Funded Pensions Scheme

##### 1. Introduction

This statement sets out how, and the extent to which, the Scheme's Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Church of England Pensions Board in its capacity as Trustee of the Scheme, has been followed during the year running from 1 January 2023 to 31 December 2023 (the "Scheme Year"). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

The statement is based on, and should be read in conjunction with the relevant version of the SIP that was in place for the Scheme Year, which was the SIP dated 29 September 2022 covering the period between 1 January 2023 and 27 September 2023, and the SIP dated 28 September 2023 covering the period between 28 September 2023 and 31 December 2023. Sections 2.1 and 2.2 of this statement set out the investment objectives of the Scheme and changes which have been made to the Engagement Policy during the Scheme Year, respectively.

A copy of the SIP containing the Engagement Policy is available at:

[https://www.churchofengland.org/sites/default/files/2023-09/cefps-sip-2023\\_0.pdf](https://www.churchofengland.org/sites/default/files/2023-09/cefps-sip-2023_0.pdf)

Section 3 of this statement provides some highlights of the activity undertaken by the Trustee in relation to Responsible Investment and Environmental, Social and Governance ("ESG") over the Scheme Year.

Sections 4 and 5 include information on the engagement and key voting activities of the underlying investment managers of the Scheme, and also sets out how the Scheme's engagement and voting policy has been followed during the Scheme Year in respect of the Scheme's DB assets. **The Trustee can confirm that all policies in the SIP on engagement in relation to the Scheme's defined benefit assets have been followed during the Scheme Year.**

##### Section 2: Statement of Investment Principles

###### 2.1 Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the objectives they have set. The Trustee is responsible for the stewardship of the Scheme's assets. It has three main objectives, which are to ensure that:

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

The Trustee has an objective for the Scheme to be fully funded on a basis that reflects the asset holdings that the Scheme is expected to hold as a Scheme open to new entrants in the long term. The Trustee also monitors the Scheme's funding position on a low dependency basis, in-line with the Pension Regulator's guidance.

###### 2.2 Review of the SIP

During the year, the Trustee reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")). A revised SIP was signed on 28 September 2023 as part of the annual review the Trustee undertakes. Changes made to the SIP included updating the information in regards to the Scheme's interest rate and inflation hedging strategy.

##### Section 3: Environmental, Social and Governance ("ESG")

###### Policy

The Scheme's SIP outlines the Trustee's beliefs on ESG considerations (including 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, as well as collaborations the Trustee has been involved in.

Further details are included in Section 8 of the SIP entitled 'Ethical and Responsible Investment'. The Trustee keeps its policies under regular review with the SIP reviewed every year and without delay after any significant change in investment policy, or if required, following a formal strategy review. 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.

How has this policy been met over the Scheme Year?

The Trustee uses an in-house investment team to carry out engagement and voting activity (as detailed in Section 4 and 5 below).

The Trustee is heavily involved in various collective engagement initiatives, a number of which the Trustee was instrumental in setting-up. Significant engagement initiatives include the Transition Pathway Initiative, Climate Action 100+, Assessing Sovereign Climate-related Opportunities and Risks ("ASCOR") and the Investor Commission on Mining 2030. Over the Scheme Year the Trustee helped to establish a new initiative, the [Sustainability Principles Charter for the Bulk Annuity Process](#). These principles seek to align expectations around sustainability within the bulk annuity process, and the Trustee became one of the founding signatories. An additional collaboration of note saw the Trustee as part of the [Investor Commission on Mining 2030](#) convene the Commission for the first time over 2023, with its aim to work collaboratively towards establishing consensus on the role finance has in realising a vision of a socially and environmentally responsible mining sector. Further details of these collaborations as well as additional collaborations are detailed in the Trustee's [Stewardship Report](#).

The Trustee maintains a list of excluded companies based on the Trustee's ethical investment screens and restrictions based on the escalation of engagement/stewardship review. As at 31 December 2023, the list comprised of 447 companies covering a range of themes including gambling, alcohol, and thermal coal and tar sands. The revenue screen for ethical exclusions is monitored by the in-house team and refreshed every 3 months. In June 2023, the Trustee announced its divestment from Shell plc and other remaining oil and gas holdings, which were as a result added to its list of excluded companies. This decision was made following prolonged engagement with the sector, including a focused period of engagement from 2019-2023, where companies needed to meet specific hurdles in order to remain investible. The engagement programme aimed to bring companies' emissions reduction targets and transition plans in alignment with 1.5°C pathways as independently assessed by the Transition Pathway Initiative. In 2023, unfortunately no company met this expectation and the decision was made to divest remaining holdings.

Over the Scheme Year, the Trustee has assessed the ongoing suitability of the appointed investment managers. Each manager's strategy, decisions, financial and ESG/ethical performance are monitored by the Trustee's Investment Committee on a quarterly basis.

In December 2023, the Trustee released its inaugural [Climate Action Plan \("CAP"\)](#), which sets out its approach to managing climate risks and its approach to using stewardship as a key lever to accelerate climate action. The CAP details the Trustee's ambition to reach net-zero in its investment portfolio by 2050.

#### **Section 4: Engagement Activity**

Engagement activity is carried out and monitored by the in-house investment team on behalf of the Trustee. Areas of particular focus in regards to engagements for the Trustee include: climate change, mining safety, nature/biodiversity, modern slavery, 'Big Tech', executive remuneration and sewage leaks into UK waterways.

See section 5 for more details on how the Trustee's policies on engagement have been implemented, as well as its policies on the exercise of investment rights (including voting).

The following are examples of significant engagement activities undertaken over the Scheme Year:

## Mining Sector



Engaging with the mining sector has been a major stewardship priority of the Trustee since the Ethical Investment Advisory Group (“EIAG”) published extractive industries advice in 2017.

As part of its engagement efforts the Trustee established and has led an investor coalition of \$24 trillion of assets under management to ask for novel disclosures of waste storage sites (tailings storage facilities) across the mining sector. The outcome of this engagement has been that a very significant proportion of the mining sector responded with itemised disclosures. The Trustee subsequently partnered with UNEP and GRID Arendal to collate/standardise the responses and present them to the public through an accessible platform. The Trustee then co-convened an independently chaired Global Tailings Review, and the development of a ‘Global Industry Standard on Tailings Management’.

Over the Scheme Year the Trustee saw the first company disclosures against the new standard by the world largest mining companies, covering the facilities that would have ‘Very High’ or ‘Extreme’ consequences if they were to fail. All 25 International Council on Mining and Metals (“ICMM”) companies published statements, showing further detail on the management of 113 ‘Extreme’ and 125 ‘Very High’ consequence facilities. Approximately 60% of the facilities were reported as ‘in conformance’ with the global standard, and about 40% were reported as not-yet-in-conformance. The Trustee has continued its engagement with the non-ICMM members, encouraging conformance to the global standard.

## Corporate Climate Lobbying



Over the Scheme Year, the Trustee continued its focus on corporate climate lobbying following the publication of the [Global Standard on Responsible Climate Lobbying](#) in 2023. The Trustee believes such engagement is important given the advocacy and lobbying undertaken by companies and sectors in the Scheme’s portfolio can delay or block effective climate policy in jurisdictions around the world. Such lobbying slows down the transition, makes it more likely that we will fail to meet the temperature goals of the Paris Agreement globally, and is a poorer outcome for the Trustee’s portfolio and Scheme Members.

The Trustee over 2023 led significant advocacy within the responsible investment sector on lobbying including speaking at events including RI Europe, the Interfaith Centre on Corporate Responsibility, Institutional Investors Group on Climate Change working groups for the autos, utilities and industrials sectors, and a ChapterZero event. The Trustee also publicly pre-declared its intention to vote against management at three companies on lobbying – National Grid, Toyota and Volkswagen.

In the area of corporate climate lobbying the Trustee saw significant engagement with National Grid over 2023, after they identified the company was yet to publish a public disclosure of their corporate climate lobbying approach, public policy positions and industry associations. In part prompted by the Trustee’s own leadership on this issue, these disclosures have become a mainstay of good climate governance. As a key operator of energy infrastructure in the UK and an important electricity and gas retailer on the east coast of the United States, the company will play an important role in the transition to net-zero in both countries.

The Trustee engaged intensively with National Grid during the first months of 2023, but were unable to secure a clear commitment from the company in the lead up to their July Annual General Meeting. In late June, two weeks prior to the National Grid AGM, the Trustee pre-declared its intention to vote against the Chair and CEO, based on this lack of commitment. Following some media attention after this public declaration the company agreed to reverse their position, and is due to publish its first lobbying review which is expected to be released in April 2024.

## Section 5: Voting and Engagement Disclosures

**The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments** (including the methods by which, and the circumstances under which, the Trustee's would monitor and engage with relevant persons about relevant matters).

### Policy

The Trustee's policy is to fully exercise its responsibilities as an asset owner, so the Trustee maintains full discretion over voting activity in respect of the relevant voting assets (equities). This is administered by the in-house team using a platform provided by Institutional Shareholder Services, with case by case assessment undertaken by the in-house team. As an active voter the Trustee exercises its voting rights in line with its comprehensive voting policy and according to its stewardship priorities. Further details are set out in Section 8 ("Ethical and Responsible Investment") of the SIP.

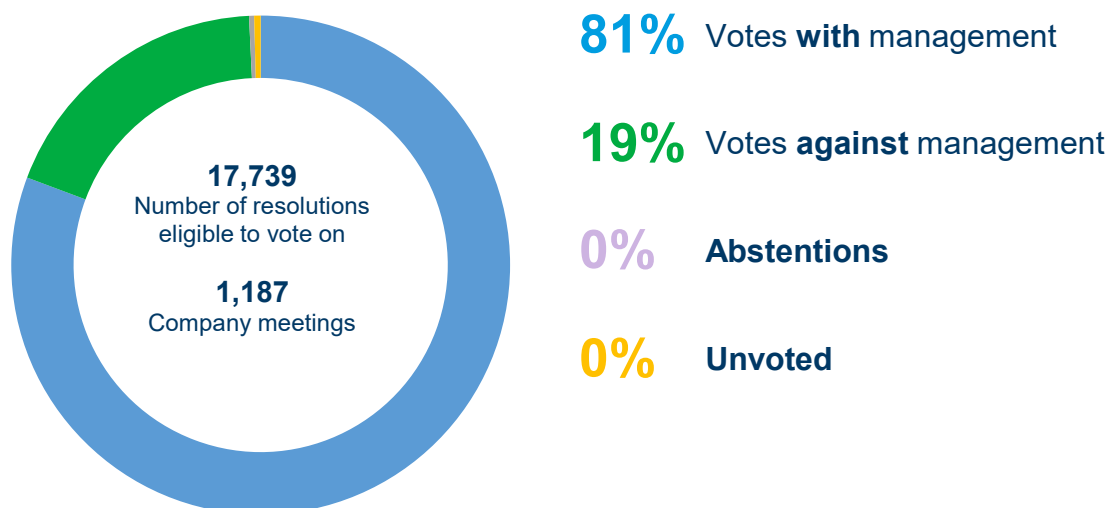
How has this policy been met over the Scheme Year?

During the Scheme Year 17,623 votes have been cast in regards to the Scheme's holdings, with a full disclosure of this voting information available (along with rationales) on the Trustee's [website](#). Voting was conducted in line with the Scheme's comprehensive voting policy and according to its stewardship priorities.

The Trustee has the following key stewardship priorities (the [Stewardship Report](#) provides a detailed overview of the Trustee's stewardship activities).

- Climate Change (in particular relating to lobbying, and the TPI framework & Management)
- Diversity (in particular ethnic representation and gender)
- Modern slavery
- Tax transparency
- Mining & extractives
- Living wage

Set out below is a summary of voting activity for this reporting period relating to the Scheme. Funds where voting is not applicable (i.e. non-equity funds) are not included in the list below.



### Most significant votes

The Trustee has classified a significant vote as any vote against management on the basis of one of the Trustee's voting policies. The Trustee is required to report on all votes they believe are the 'most significant', and these are shown overleaf. Further details including further examples of voting activity over the Scheme Year can be found in the Trustee's [Stewardship Report](#).

	Vote 1	Vote 2	Vote 3
Company	Shell Plc	Apple Inc	Danske Bank A/S
Date of Vote	23/05/2023	10/03/2023	16/03/2023
Why was vote considered significant	Escalation following relentless engagement and a lack of progress towards an orderly climate transition	Vote went against one of the Board's voting policies	
Approximate size of holding at date of vote (as a % of portfolio)	0.001%	0.002%	0.001%
Summary of resolution	Re-Elect Board Directors	Report on Median Gender/Racial Pay Gap	Climate Action Plan: Direct lending; and Climate Action Plan: Asset Management
How Trustee voted	Against all reappointments	For report	For climate action plan, For direct lending and asset management policy
If the vote was against management, did the Trustee communicate their intent to the company ahead of the vote?	The Trustee have had longstanding engagement with Shell and had been communicating with them ahead and after the AGM.	No, however, the Trustee votes consistently year on year, and follow up votes against management with engagement for our top 50 equity holdings.	
Rationale for the voting decision	Shell has failed to adequately address its climate risks in the latest report. Since signing the Paris Agreement, Shell has shown a lack of adequate targets, including Scope 3 targets which relate to intensity reduction rather than absolute emission reduction. Furthermore, though Shell has short and medium-term targets, there is concern that these are not completely aligned with the Paris Agreement, which is focused on 1.5d. The absence of adequate targets can only be viewed as an indicator of governance shortcomings.	The Trustee has consistently voted for this type of proposal which has been put forward at some of US largest corporation (American Express, Morgan Stanley, Facebook). Given the CIG effort to bring pay fairness into their voting, the Trustee are normally supportive of this type of proposal.	Revisiting the company's policy for direct lending in its "Climate Action Plan" and "Position Statement on Fossil Fuels" will allow it to examine whether the short-term loans, loans to upstream service companies and ring-fenced loans, mentioned above, are necessary for the bank's business model. It will also strengthen the companies commitment to their progressive Climate Action Plan.
Outcome of the vote	Shareholders supported director re-elections with individual support ranging between 93%-99%	66% of shareholders voted against the resolution	94% of shareholders voted against the direct lending and asset management policy climate action plan

<b>Next Steps</b>	<p>In June 2023, the Church of England Pensions Board announced its divestment from Shell plc and other remaining oil and gas holdings. This decision followed more than a decade of engagement with the sector, including a focussed period of engagement from 2019-2023, where companies needed to meet specific hurdles in order to remain investible. The engagement programme aimed to bring companies emissions reduction targets and transition plans in alignment with 1.5C pathways as independently assessed by the Transition Pathway Initiative.</p> <p>In 2023, unfortunately no company met this expectation and the decision was made to divest remaining holdings.</p>	<p>On gender diversity more broadly, the Trustee continues to act to improve standards in the boardroom and industry through the Asset Owner Diversity Charter, of which they 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.</p>	<p>The Trustee has joined the Institutional Investor Group on Climate Change ("IIGCC") banks working group and taking a lead on several of the engagements. The Net Zero Standards for banks, developed by the group in consultation with the Transition Pathway Initiative, works alongside TPI's banking assessment framework to support investor engagement with banks. The trustee will be using the TPI framework as an input when reviewing are votes at banks AGM's this year.</p>
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	<b>Vote 4</b>	<b>Vote 5</b>	<b>Vote 6</b>
<b>Company</b>	Nippon Steel Corp.	Amazon.com	Tyson Foods
<b>Date of Vote</b>	23/06/2023	24/05/2023	09/02/2023
<b>Why was vote considered significant</b>	Escalation of engagement though the investor mining and tailings safety initiative	Vote went against one of the Board's voting policies	
<b>Approximate size of holding at date of vote (as a % of portfolio)</b>	0.003%	0.002%	0.001%
<b>Summary of resolution</b>	Re-elect Chair	Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining	Comply with World Health Organization Guidelines on Antimicrobial Use Throughout Supply Chains
<b>How Trustee voted</b>	Against re-election of Chair of Board	For	For
<b>If the vote was against management, did the Trustee communicate their intent to the company ahead of the vote?</b>	The Church of England Pensions Board have been engaging with mining companies through the Investor Mining and Tailings Safety Initiative.	No, however, the Trustee votes consistently year on year, and follow up votes against management with engagement for their top 50 equity holdings.	

<b>Rationale for the voting decision</b>	The company have not responded to the disclosure request made by the Investor Mining and Tailings Safety Initiative.	The provision of a report on these matters is seen as an enhancement to shareholders understanding of the company's role in these matters.	The provision of a report on these matters is seen as an enhancement to shareholders understanding of the company's role in these matters.
<b>Outcome of the vote</b>	Shareholder support in favour of Chair re-elections was 88%.	65% of shareholders voted against the resolution	95% of shareholders voted against the resolution
<b>Next Steps</b>	In January 2023 the Trustee announced a new Independent Global Tailings Management Institute to continue to drive mining industry safety standard. The Trustee recognises the mining industry's important role in society and aim to ensure the sector leaves a positive legacy by addressing key systemic risks holistically. They have engaged with all companies to seek commitments to operate to the new Global Industry Standard on Tailings Management and where they have holdings have said they would vote against the Chair. The Trustee has continued to engage with the sector and are now working closely with other investors and are considering filing a shareholder resolution.	The Trustee continues to monitor developments at the company.	The Trustee has been participating in an asset owner working group on antimicrobial resistance ("AMR") since 2023, building on their involvement with the Cambridge Universal Owners Initiative that identified AMR and Biodiversity as two systemic priorities for attention among asset owners. The Trustee continues to work with group chair HESTA (an Australian pension fund), and other investors in order to raise awareness and identify where their efforts might add value to addressing these risks.

	<b>Vote 7</b>
<b>Company</b>	National Grid
<b>Date of Vote</b>	10/07/2023
<b>Why was vote considered significant</b>	The Trustee had been engaging with National Grid to secure a commitment to publish a public disclosure of their corporate climate lobbying approach.
<b>Approximate size of holding at date of vote (as a % of portfolio)</b>	0.001%
<b>Summary of resolution</b>	To undertake and publish a review of direct and indirect climate lobbying activity
<b>How Trustee voted</b>	Reappointment of Chair and CEO
<b>If the vote was against management, did the Trustee communicate their intent to the</b>	Regarding the Chair and CEO, the Church of England Pensions Board had been engaging directly with National Grid. Two weeks prior to the National Grid AGM, the Trustee pre-declared its intention to vote against the Chair and CEO, based on a lack of commitment to publish their approach to corporate climate lobbying. This attracted considerable media attention.

<b>company ahead of the vote?</b>	
<b>Rationale for the voting decision</b>	Within a week of pre-declaring our voting intention the company agreed to reverse their position on producing a lobbying report. As a result we supported the reappointment of the Chair and CEO. The lobbying review is due to be published April 2024
<b>Outcome of the vote</b>	99% of shareholders voted FOR the reappointment of the CEO and 96% For the Chair
<b>Next Steps</b>	We have continued to engage with National Grid on lobbying and its transition plan and maintain a positive, constructive and two-way dialogue with the company. We await publication of the lobbying report in April 2024