

2023

Stewardship Report



Welcome

This is the fourth stewardship report produced by the Pensions Board for our scheme members. It is also the most comprehensive in detailing the approach of the Board and the impact we seek through our stewardship of the assets entrusted to us. Ethical and responsible investment is at the heart of our approach and trustee decision-making.

Our members shape our priorities and over the past year we have further enhanced our outreach to you through focus groups, direct communications on our stewardship and our annual members' meeting, as well as creating opportunities to hear from the investment team on particular topics, be that executive remuneration, human rights, climate change or our work across the mining sector.

Your views matter deeply to us and we continue to seek your feedback.

Defined benefit schemes fully funded by end of 2023

In the global economy, 2023 marked a decisive break from the long period of ultra-low interest rates experienced since the 2008 financial crisis, as central banks increased rates to try and curb surging inflation. The associated dramatic increase in the cost of living has caused much distress in society.

Within pensions, higher interest rates also meant that government and corporate bonds offered higher yields, and the Board increased its holdings of these lower risk assets during the year. These rates also benefitted scheme funding, by reducing the value of liabilities and hence the assets needed to provide for all future pensions. Together with cost savings and sustained investment returns over the past decade, this resulted in our defined benefit (DB) schemes being fully funded as at the end of 2023. This gives members and employers greater security for the

future, a security that in time we wish to see mirrored in arrangements for defined contribution (DC) members.

Delivering on our commitments

2023 was also the year that we concluded our engagement with the oil and gas sector following over ten years of engagement, and an intense effort over the past five years. This resulted in considerable achievements, but in our final assessment based upon the independent academic analysis of the Transition Pathway Initiative (TPI), no company was sufficiently ambitious in its targets over the short, medium and long term. Unfortunately, a number of companies have watered down their commitments and ambitions. This is disappointing and bad news for our planet.

When considering the long-term interests of members, we undertake to test the portfolio against different climate impact scenarios, as well as the systemic impacts of climate on society, the poorest, and the future world our members will retire into. We were clear about the decision to disinvest our remaining holdings in the sector.

These steps do not mark the end of our engagement on climate transition – far from it. As signalled in last year's report we have shifted our focus to engaging with companies that demand energy and need to transition away from fossil fuels as soon as practicable. As a result the Board now leads engagement for investors internationally with most of Europe's auto manufacturers as well as with key companies in the energy and mining sectors.

Thank you for your support for the work of the Board and we genuinely appreciate your feedback on the contents of the report, the work we do and how we communicate it.



John Ball
CEO



Clive Mather
Chair



The Anglican Communion is present in over 165 countries, many of which are experiencing conflict. Companies can play a positive role in these contexts but their operations can also contribute to drivers of conflict. Being able to work with the Pensions Board to develop approaches to peacebuilding, supporting companies as constructive actors and as they engage with local communities, is an extremely welcome ongoing development."



Martha Jarvis, Permanent Representative to the United Nations for the Anglican Communion. See pages 4 and 33 for more information on this project.

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SYSTEMIC STEWARDSHIP

Our interventions often have a systemic impact. Find out more about this in our work with the mining sector on tailings, the insurance sector, and water utilities.

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INVESTING FOR A SUSTAINABLE WORLD

We aim to have a positive impact on the world through our investments and nowhere is this more apparent than in our work to engage with companies on climate change.

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INVESTING FOR A JUST WORLD

We engage with government policy and through our investments seek to promote fair rewards, human rights, good housing and decent work.

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GOOD GOVERNANCE

We continue to engage with companies on topics such as pay and gender diversity and our policy prevents us from investing in certain sectors that we believe are harmful.

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FUTURE PRIORITIES

We have set out a series of future actions that build upon our work over the past year.

Introduction



Addressing conflict and building peace

Sitting under a tree in the town of Pemba in northern Mozambique with the Anglican Bishop of Nampula and the Chair of the Islamic Council of Nampula, we heard stories of the impacts

on the people of the region from the ISIS inspired insurgency. Over four thousand people have died in horrific violence and one million people have been internally displaced.

At this gathering in the Bishop's 'Cathedral', under the stunning tree outside the Diocese office, we heard from faith, women and youth leaders describing how through inter-faith peace clubs the community were supporting peace efforts. A multi-country military response continues to fight the insurgency. But this response by the communities – supporting those with trauma and the displaced, but also engaging the youth that had been inspired to join the insurgents – has increasingly been recognised by the United Nations as critical to establishing peace in the region.

What is the role of responsible investors in conflict contexts?

The answer is simple – many conflicts are either catalysed or sustained by extraction of natural resources. In turn these resources flow into global supply chains of the various sectors and companies in which we are invested. This is unfortunately no different in this situation in Cabo Delgado in northern Mozambique as extraction for mining and natural gas are widely acknowledged, including by the community leaders we spoke to, as having been significant contributors to this conflict.

As a result, how companies operating in the conflict zone respond to the situation and the role they can play in supporting peace is a critical part of the engagement that the Board has been undertaking together with colleagues from the Swedish Pension Funds and in support of Archbishop Justin's ministry for peacebuilding and reconciliation. Any future peace in the region will also depend on greater local benefit sharing from well-run companies that recognise they need the social licence not just of the national government but the local communities within which they operate.

Companies as catalysts for human flourishing

Ensuring companies do not contribute to conflicts but instead are positive catalysts for sustainable and flourishing communities is the first priority. This though can be extremely difficult as often the simple presence of an extractive company, even extremely well run, can destabilise and change forever the local environment within which they operate and in turn create the conditions for conflict. We saw this first hand during our visit to different conflict zones with Archbishop Justin's Director of Peacebuilding.



While this is an evolving priority area for the Pensions Board, it also has strong intersections with our wider work: conflict dynamics will further exacerbate human rights risks, and increasingly,

local dynamics are also impacted by a changing climate. Recognising this reality and seeking to address this head on, not only in live conflicts but in how business operates, will be a key part of the future responsible investment work of the Board. As with the issue of water utilities, which is also a new area of work for the Board, we look forward to keeping scheme members informed through our future stewardship reports. We also really appreciate any feedback members wish to provide on this report, our wider approach and the priorities of our stewardship.

Adam C.T. Matthews

Chief Responsible Investment Officer

Our schemes

The Pensions Board operates three schemes and stewards a diversified investment portfolio.

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

The Church Workers Pension Fund (CWPF) provides pensions for the staff of employers linked to the ministry and mission of

the Church of England. This has been the fastest growing scheme in recent years, as parishes and other church organisations choose to join CWPF, to offer qualifying employees a pension scheme that meets auto-enrolment standards and has excellent ethical credentials.

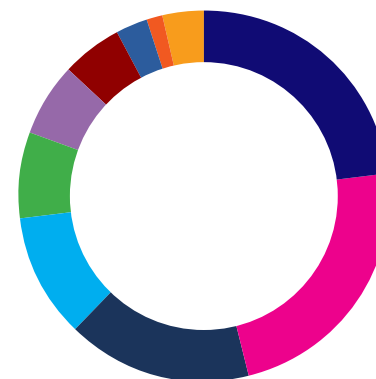
The Church Administrators Pension Fund (CAPF) provides pensions for the staff of the National Church Institutions. The fund has two sections – a defined benefit section which closed to new entrants in 2006, and a defined contribution section.



Funds under stewardship as at 31 December 2023

We pool most of the individual pension scheme assets into a common investment fund. This allows our smaller schemes to access economies of scale and investment opportunities that might not be available to them otherwise. The main assets held outside the pooled structure are our Liability Driven Investment (LDI) portfolios, which are primarily invested in UK index-linked gilts and are designed to closely match the income streams we need to pay pensions in payment.

CAPF DC scheme investments and clergy additional voluntary contributions sit outside the common fund. These funds' investment characteristics and responsible investment reporting is supplied to members by Legal & General Investment Management. See <https://pensions.churchofengland.org>



Index-linked gilts	£704m
Public equities	£700m
Infrastructure	£489m
Corporate bonds	£327m
Property	£232m
Private debt	£190m
Private equity	£157m
Emerging market debt	£88m
Alternative income	£43m
Cash	£105m

Jargon buster

100% funded

100% funding means that our defined benefit schemes currently have sufficient assets to pay all of the promised pensions when they fall due. This is worked out using actuarial calculations, and is an estimate based on assumptions about inflation, longevity, etc. It does not mean the job is done! The schemes' assets still require careful management, and the strong position means that trustees have been able to use their discretion to make higher-than-required increases to payments, and reduce the cost of funding future pensions to the wider Church.

Key highlights

7.3%

total return in 2023 (excluding gilts), 7.8% average over 10 years

>100%

funding for all our defined benefit pension schemes

Voting & engagements

Key highlights

17,623

votes cast at 1,187
company meetings
across 44 markets

99.6%

of eligible
ballots were
voted

18.4%

of votes we dissented
from management's
recommendation

64%

of shareholder
proposals
supported

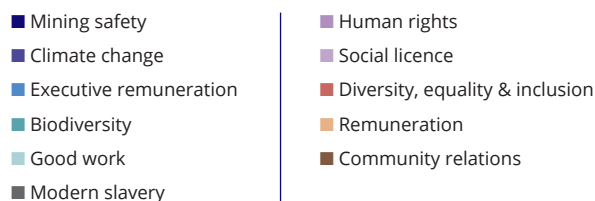
Over 1,000

instances of engagement, predominantly on
the topics of climate change, mining safety,
nature/biodiversity, modern slavery, 'Big Tech',
executive remuneration, and sewage leaks
into UK waterways.



Our work in action

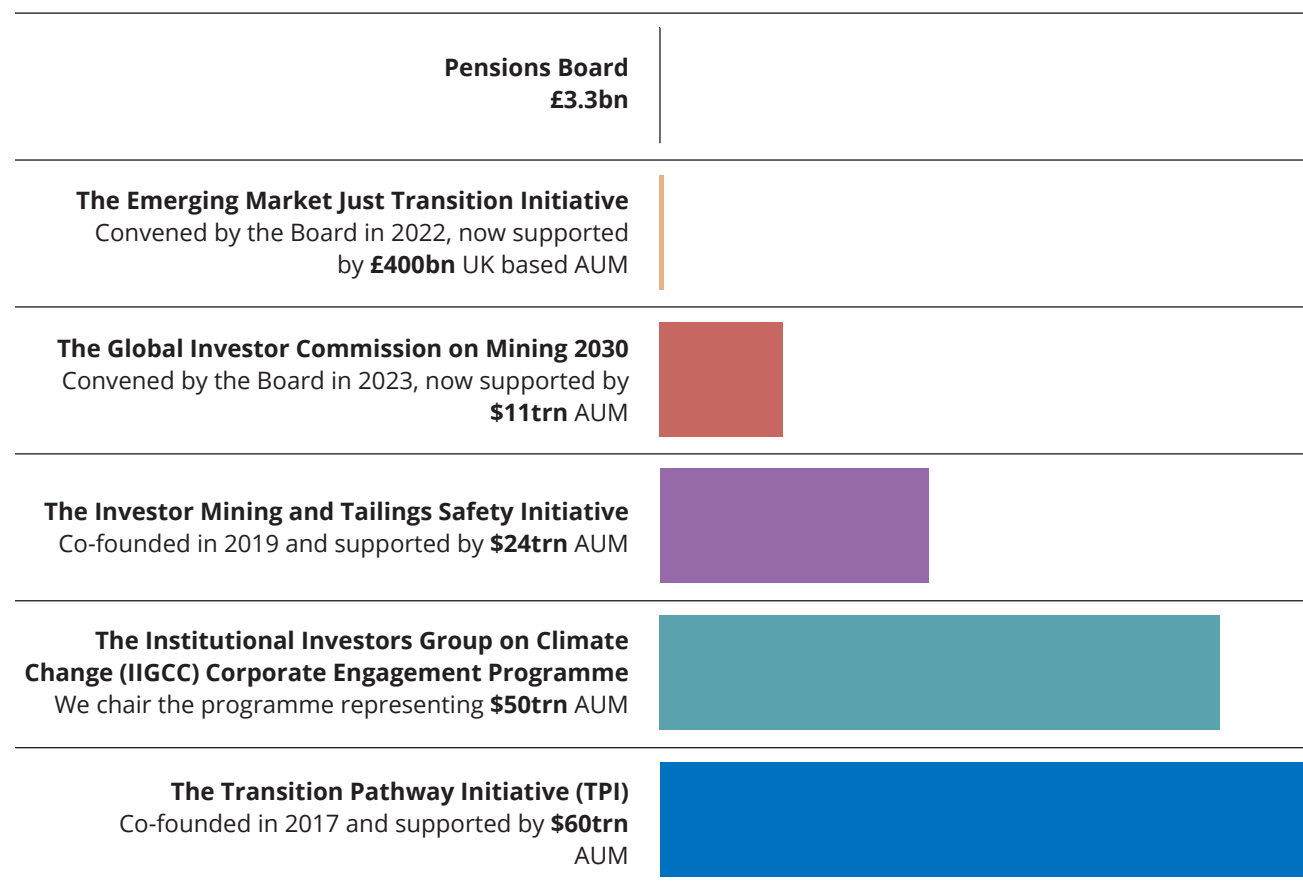
Number of engagements by theme



Our work in action

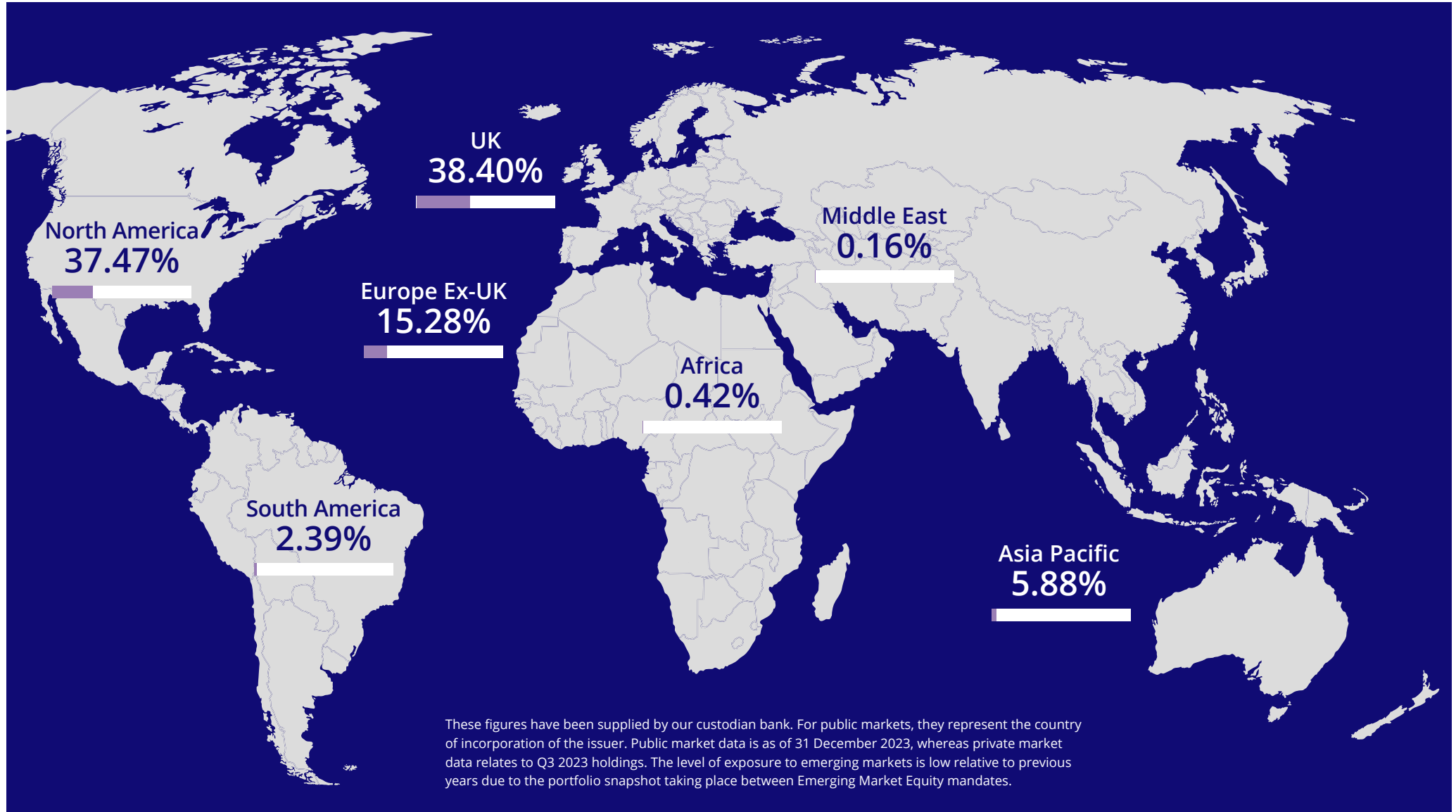
Catalysing global action

As the Church of England's pension fund, we are ideally placed to bring together global investors, asset owners and industries to drive action on systemic risks, including climate change, mining safety and human rights. Here are some examples of the impact our approach can have, in building consensus and partnerships to encourage lasting change. The coalition we have brought together behind TPI (see below) is roughly 20,000 times the size of our fund.



KEY: AUM – Assets under management

Map of our investments



Reporting back on priority actions

This section shows the 'future priorities' we articulated in our 2022 report, and the extent to which these have been delivered.

Convene the Global Investor Commission on Mining 2030 to address issues that strategically challenge the mining sector and its social licence.

Progress: Convened. Commissioners and secretariat appointed, steering committee convened and initial funding secured. First two Commission meetings took place in 2023.

See page: 17



Develop an engagement programme following the publication of advice from our Ethical Investment Advisory Group on Big Tech in 2022.

Progress: We have supported engagement with 7 Big Tech companies as part of the Swedish Council on Ethics led collaborative engagement. Supported the EIAG to develop further advice on Artificial Intelligence. Engagement programme to continue in 2024.

See page: 33



Establish, together with the UN, the independent Global Tailings Management Institute (GTMI) to support the implementation of the Global Industry Standard on tailings management.

Progress: Our partnership with UNEP to develop the independent GTMI continues. A fee-based funding model has been developed and tested with industry, and the International Council on Mining and Metals has agreed to become a Founding Partner, committing \$1 million for the set-up phase subject to match funding being secured. We hope to launch in 2024.

See page: 13ff



Lead demand side engagement for the automotive sector in Europe, and further support CA100+ to focus on this as a major priority to change demand for fossil fuel energy.

Progress: The Board now leads engagement with European automotive manufacturers on behalf of the largest investor engagement coalition in history, Climate Action 100+.

See page: 22



Launch the first ever framework to assess government sovereign bonds through the ASCOR Project.

Progress: Launched. The first assessments of 25 countries were published on the TPI Centre website in December 2023.

See www.ascorproject.org

See page: 26 and 27



Chair the Global Paris Aligned Investor Initiative together with Dutch fund APG to oversee the development of the Net Zero Investment Framework by the world's regional investor networks.

Progress: We have continued to co-lead this initiative on behalf of Asset Owners globally as well as maintaining our leadership within key climate initiatives during 2023: for the European investor network IIGCC, Laura Hillis (Director of Climate and Environment), serves as Chair of its Corporate Engagement Programme and Dr Stephen Barrie (Deputy Chief Responsible Investment Officer) joined the board of the Transition Pathway Initiative as its Treasurer.

See page: 20ff



Undertake a deep dive into systemic risk and 'systemic stewardship', including the implications for our strategy.

Progress: The 'Systemic Stewardship' section below shows some of the ways we understand our role in addressing systemic risks to the fund on behalf of our members.

See page: 10 and 11 and the Systemic Stewardship section from page 12



Lead an Executive Pay Fairness initiative that can develop an approach and publicly available dashboard to reframe the way shareholders consider executive pay.

Progress: We have led the development of an investor tool with a group of UK asset owners chaired by Clare Richards (Director, Social), and undertaken public consultation on the methodology. The first assessments of the FTSE 100 companies were made in the initial quarter of 2024 and plans will be developed during the year to expand the number of assessed companies.

See page: 31



Our approach in summary

We believe that stewardship is integral to being a responsible investor, both financially and ethically. It is directly linked to the risk/return profile of our investments and to our responsibilities as part of the Church of England. Effective stewardship requires: reliable data and good internal systems; capacity and integration; leadership; a willingness to speak out; demanding policies and best practice standards; and a

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

ETHICAL APPROACH

The way we invest impacts society and the environment, so we work to guard against harms and seek beneficial outcomes. We apply ethical investment policies, informed by the advice of the Church's independent Ethical Investment Advisory Group (EIAG). The EIAG brings together leading experts, from a range of backgrounds, to develop timely and practical ethical investment advice, based on Anglican and Christian theology. In 2022, the EIAG advised, and the Pensions Board adopted, new policies on deforestation and 'Big Tech'.

See more on the EIAG's webpages:
www.churchofengland.org/eiag

TACKLING SYSTEMIC CHALLENGES

Our investment time horizon is measured in decades rather than quarters, and we recognise that certain issues pose systemic challenges to our investments and the world our members will retire into. We therefore prioritise engagement on cross-cutting issues, such as with climate change and with extractive industries, where we devise long-term interventions that are focused on outcomes in the real economy.

See more in the Systemic Stewardship section (p12ff)

INTEGRATION

We apply an integrated stewardship approach in order to deliver sustainable investment returns in the long-term interests of our members. We operate as one integrated investment team, co-led by the Chief Investment Officer (CIO) and Chief Responsible Investment Officer (CRIO), and require all of our asset managers to have the capacity to consider and act on environmental, social and governance considerations.

See more on pages 18, 37, 40, and the appendices

COLLABORATION AND ASSET-OWNER LEADERSHIP

No single pension fund is sufficiently big or influential enough, in its own right, to drive the level of change needed on important issues such as climate change. Therefore, we regularly set up or support collaborations of investors. We also recognise that there are times when we as a Church-based asset owner are uniquely placed to provide leadership across the investment industry globally, on issues in line with our fund's objectives.

See diagram on page 7 and case studies in the report

TRANSPARENCY

Transparency is an important principle, and we are committed to providing a clear account of the approach we take, which we believe not only enables better stakeholder understanding, but can enhance engagement in the financial sector and with our investee companies. In addition to this report, our standalone TCFD report, regulatory Implementation Statements and scheme annual reports, we continue to disclose the way we vote at all our company annual general meetings (AGMs).

See the Good Governance section, and the appendices

STEWARDSHIP

Responsibly allocating and managing our investments is central to our values. We are an active asset owner and dedicate in-house resources to proxy voting, maintaining a list of excluded investments and delivering impactful corporate and policy engagement.

See examples throughout the report, and the Good Governance section for details on voting and screening

Prioritising stewardship

How do we choose which companies to engage with?

We choose companies to engage based broadly on two methods, top-down and bottom-up. The majority of our engagements are undertaken because we have an investment belief, principle or policy that draws our attention to particular kinds of businesses, such as companies with high emissions or low safety standards. We also scan the portfolio for indicators of poor performance. The Ethical Investment Advisory Group gives us advice on our policies (see the box on this page), our trustees then deliberate and adopt policies that frame our approach and the investment team implements them. We target individual companies, but we can also set our sights on influencing an entire sector, as we have with the mining industry and intend to with the UK water industry.

How do we escalate our concerns?

We expect all of the companies we own to be responsive to our engagement. If a company does not respond, or we judge their response to be insufficient, we may escalate our stewardship through voting. This would usually be accompanied by direct engagement with the company outlining our reasons. We may also 'pre-declare' our voting intention, publicly alerting the company (and other investors) that we are unsatisfied. See page 24 for an example of this approach working well with National Grid. A further escalation would be to file a shareholder resolution, where we call for a particular matter to be put to other shareholders for a vote. See page 24 for an update on our attempts to file shareholder resolutions at Volkswagen. Ultimately, and as a last resort, we may disinvest. Disinvesting does not directly lead to a change in the company's policies or practices, because on the other side of the sale is another investor who may not share our concerns. Nonetheless, disinvesting can send a clear message. See page 22 for an explanation of our disinvestment from oil and gas companies.

c.500

companies
excluded from
investment



Ethically and responsibly invested pensions

We are guided in our approach to responsible investment by advice from the Church's Ethical Investment Advisory Group. Based on their guidance to trustees, we develop policies around exclusions of certain kinds of investments such as tobacco, gambling and high-rate lending, alongside engagement approaches on complex issues and sectors with investee companies to drive meaningful social, governance and environmental changes. We are the only pension provider offering schemes that fully comply with Church of England ethical investment advice.

SYSTEMIC STEWARDSHIP

Many of our interventions have a systemic element or impact. Here we profile mining and tailings, engaging with the insurance sector, and an upcoming engagement with water utilities.

Systemic stewardship

We recognise that certain issues pose systemic challenges to our investments and the world our members will retire into. We therefore prioritise engagement on cross-cutting topics, such as with climate change and with extractive industries, where we devise long-term interventions that are focused on outcomes in the real economy. There are examples of this systemic approach throughout this report. For example, our founding and leadership of the Transition Pathway Initiative, our engagement with FTSE 100 companies on fair pay (see page 31), and our work alongside other asset owners to review the climate voting practices of 12 of the largest asset managers that operate in the UK (see page 40 and [here](#)).

In the section, we highlight a handful of areas where we have been working to drive system-level change, in order to protect and enhance the investments we make on behalf of our members. Some of them are also covered briefly in the relevant section below (Sustainable World/Just Society/Good Governance).

Jargon buster

Mine waste safety

Since 2019, we have worked to address the safety of the way mine waste (called tailings) is stored. See right for the huge volume of tailings stored globally, which we now believe to be a significant underestimate. See page 14, which reports our latest work in this area.

Challenge

Mine waste (tailings) poses a risk to people, the environment, and the social licence of mining companies. There has been an increasing trend of tailings dams collapsing, including the 2019 Brumadinho disaster which led to 272 lives lost.

Action

Since 2019, we have sought new disclosures, co-convened the development of a global industry standard, driven its adoption, worked to create a global institute and improve the global oversight of tailings. More on pages 14 and 15.

Outcome

Many indicators of impact. Significant uptake throughout the industry (more than 60% by market capitalisation). Public confirmation from large numbers of companies that their extreme and very high consequence facilities are in conformance or require further work to conform (see page 17).



Engaging systematically for a safer mining sector

Engaging with the mining sector has been a major stewardship priority of the Board since the EIAG published extractive industries advice in 2017. Since 2019, and the disaster at Brumadinho, Brazil, this engagement has intensified. Our previous Stewardship Report (2022) presented a detailed timeline of the award-winning (PRI Stewardship Project of the Year) steps we have taken, and there has been further progress in the past year.

2019-2022 – Over these years, the Board 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. A very significant proportion of the mining sector responded with itemised disclosures. We partnered with the United Nations Environment Programme (UNEP) and GRID Arendal (a Norwegian NGO), to collate/standardise the responses and present them to the public through an accessible platform (tailing.grida.no). We also partnered with ICMM (the International Council on Mining and Metals, an industry body representing 27 of the largest mining companies), and UNEP to convene the independent and multi-stakeholder development of a new global standard of practice for tailings facilities (the Global Industry Standard on Tailings Management).

2023 – This year saw the first company disclosures against the new standard by the world's largest mining companies, covering the facilities that would have 'Very High' or 'Extreme' consequences if they were to fail. All 25 ICMM companies published disclosures, showing further detail on the management of 113 'Extreme' and 125 'Very High' facilities.



To imagine the [mining] industry disclosing the information it now does, you would have been laughed out of most company headquarters”

former CEO of a major mining company



Jargon buster

Mine tailings

Tailings are powdery, sandy waste particles that are left over once ore has been crushed and the metal extracted. This waste is often stored behind a dam, and this is called a Tailings Storage Facility. There have been a series of catastrophic failures of tailings facilities, sometimes with significant loss of life, and serious environmental impact. In Brazil, in 2019, a facility failed causing the death of 272 people.

Approximately 60% of the facilities were reported as 'in conformance' with the global standard, and about 40% were reported as 'not yet in conformance'. This is an exacting standard and this was a major step in mitigating the risks that communities, workers and the environment face from tailings dams.

Systems for improved accountability

We now have good insights into which companies have tailings facilities and the standards they are operating to, but the issue is much broader than just the current operations of large companies. The legacy of tailings waste litters many landscapes. Often these facilities can be left, managed well, even rehabilitated, but they can also be dangerous to communities and the environment. When a disaster occurs it

impacts on many levels, but also undermines the social licence of the mining sector, even if the dam is not one companies today operate. This is highlighted by the Jagersfontein disaster in South Africa, which killed three people and resulted in significant environmental impacts.

Therefore, knowing where the world's tailings dams are is key to addressing this challenge for both the sector today, as well as for those that invest in it and use the products of the mining sector.

The state of tailings disclosure across the world is a well-recognised problem – to the point that there is some debate about the total number of tailings facilities in existence. Knowing where facilities are is the first step in the process to make them safe. In 2023, the Board, by co-chairing an international working group, set about creating a global, publicly accessible and updated record of all of the tailings facilities in the world. This is likely to be in the multiple tens of thousands. The group comprises experts from the International Commission on Large Dams, alongside the Pensions Board and the UNEP. The Group has already geolocated more facilities than have ever previously been identified, and we will launch the database in 2024. To get a sense of the size of the topic, a previous conservative estimate suggested that there are 217km³ of tailings, enough to fill a 6km high cube. That's 81 Vatican Cities, piled slightly higher than Mount Kilimanjaro.



Mining and Tailings Safety Initiative – escalation

Company: NIPPON STEEL CORP, Daido Steel Co. Ltd., JFE Holdings, Inc.

Ballot Category: Re-elect Chair

Our Vote: AGAINST re-election of Chair of Board

Rationale: The companies have not responded to the disclosure request made by the Investor Mining and Tailings Safety Initiative

The Outcome: All proposals passed; dissent levels ranged from 3%–14%

Follow Up: In January 2023, we announced a new Independent Global Tailings Management Institute to continue to drive mining industry safety standards. We recognise the mining industry's important role in society and aim to ensure the sector leaves a positive legacy by addressing key systemic risks holistically. We have engaged with all companies to seek commitments to operate to the new Global Industry Standard on Tailings Management, and where we have holdings have said we would vote against the Chair. We have continued to engage with the sector and are now working closely with other investors and are considering filing a shareholder resolution.

Global Industry Standard on Tailings Management

Overall summary of disclosures



ICMM Member company	Included in disclosures		Total # of TSFs	Level of confidence		Independent verification of conformance
	Extreme TSFs	Very High TSFs		#TSFs that have been declared as in conformance by companies*	#TSFs that some companies have identified as requiring further work**	
Alcoa	1	11	12	10	2	Yes
African Rainbow Minerals	5	1	6		6	Yes
Anglo American	7	5	12	5	7	No
Anglo Gold Ashanti	9	7	16		16	No
Antofagasta	1	0	1	1		No
Barrick	5	9	14	14		No
BHP	2	20	22	22		No
Boliden	1	1	2		2	No
Codelco	11	0	11	11		No
Glencore	8	7	15		15	Yes
Goldfields	1	3	4		4	No
Hydro	0	3	3	3		No
Freeport	3	0	3	3		Yes
Minera San Cristobal	No Very High or Extreme TSFs					
MMG	2	1	3		3	Yes
Newcrest	1	8	9		9	No
Newmont	7	4	11	1	10	No
Minsur	No Very High or Extreme TSFs					
Rio Tinto	6	8	14		14	Yes for 6
Orano	1	1	2		2	No
Sibanye-Stillwater	14	8	22	22		No
South 32	0	4	4	4		Yes
Sumitomo Metal Mining	1	1	2		2	No
Tech	3	6	9	4	5	No
Vale	24	17	41	41		Yes
Total	113	125	238	141	97	

* Some requirements may need further work, but declared as conforming if plans in place to meet requirements ("Meets with a Plan")

** Although some requirements noted as "Partially Meets", most will have plans in place to close identified gaps

Disclaimers

- Summary Table may not truly reflect the individual company status of the TSF data provided, given the different interpretations companies have placed on aspects of their Disclosures and Levels of Conformance
- Readers should conduct their own review of the disclosure data provided by the companies and, if necessary, contact the companies directly for any clarifications

Companies confirming status of commitment to Global Tailings Standard

GISTM category	Number	Market cap (USD, \$m)	Percentage
ICMM companies	24	677,611	38.2%
Non-ICMM companies commitment to implement GISTM	53	241,792	13.6%
Reviewing/engaging re GISTM	13	27,076	1.5%
Applying MAC-TSM (also reviewing/engaging GISTM)	5	32,218	1.8%
Applying MAC-TSM (not GISTM) (confirmed by MAC)	17	164,699	9.3%
Applying MAC-TSM (not GISTM) (confirmed by correspondence)	1	1,157	0.1%
Imminent response (disclosure expected)	5	7,372	0.4%
No formal response/alternative standard (not GISTM/MAC)	126	624,028	35.1%
Total	244	1,775,952.95	

Notes

- ICMM Member companies committed to implement the standard in Aug 2020
- Investor Engagement has been led by the Church of England Pensions Board with non-ICMM companies
- GISTM is the Global Industry Standard on Tailings Management
- MAC-TSM is the Minerals Council of Canada Towards Sustainable Mining Standard which is viewed as close to the requirements of the GISTM, but subject to review by the independent Global Tailings Institute once it is formally operational
- Some companies have identified they are seeking to operate to both GISTM globally and to add MAC-TSM specifically for their Canadian operations

The Global Investor Commission on Mining 2030



On the launch of the Global Investor Commission on Mining 2030, Barend Petersen, Commission Deputy Chair and Representative of the Archbishop of Cape Town, said:

“If mining is to provide what society needs into the future then we need to reflect if we are enabling it to do so to the highest standards. The role of investors is critical to how the sector can meet future demand sustainably and responsibly. We need to think long term and the Commission presents an opportunity to do so.”

The mining industry is not just challenged by tailings facilities. Investors have identified a range of concerns that make the mining sector systemically important. The sector has a relatively large impact footprint, is a vital part of many industries’ supply chains (many of which we also invest in, such as airlines, steel companies, big tech companies and auto manufacturers, as well as major infrastructure including renewables, bridges and buildings),

“
If mining is to provide what society needs into the future then we need to reflect if we are enabling it to do so to the highest standards.”

Barend Petersen, Commission Deputy Chair and Representative of the Archbishop of Cape Town

and because the metals and minerals are going to be necessary for the transition to a low carbon economy.

One thing we learned from our work on tailings is the importance of, and the benefits that come from, a multi-stakeholder approach. This ensures that a broader set of perspectives are at the table alongside industry and investors, informing our approach. The Global Investor Commission therefore comprises members from a diverse range of geographies and stakeholder groups – including

representatives from communities, civil society, non-governmental organisations, academia, trade unions, law firms, investors, and mining companies.

In 2023, we convened the Commission for the first time; its aim is to work collaboratively towards establishing consensus on the role finance has in realising a vision of a socially and environmentally responsible mining sector – and with it a practical implementation plan for realising this vision by 2030.



Bulk Annuity Charter

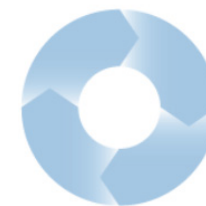
In last year's report, we highlighted work on sustainability in 'bulk annuities', and we are pleased to report substantial progress. Bulk annuities are insurance contracts which promise to pay out income to meet pension payments as they fall due. In a bulk annuity transaction, the trustees purchase a contract with an insurer funded by pension scheme assets. This reduces risk for the scheme because the insurance contract precisely matches the benefits that are due. The insurer takes on various risks, for example, that members might live longer in retirement than expected.

There are two flavours of bulk annuity: the first is a 'buy in' where the contract becomes an asset of the scheme, delivering income which the trustees then use to pay pensions. The Pensions Board already holds two of these policies in the Church Workers Pension Fund. The other type – a 'buy out' – sees the insurer take over making the pension payments to members. The challenge though is that providers do not necessarily have the same commitment to responsible investment as we have and there is a very limited pool to select from (only eight or nine providers in total). This is an industry-wide challenge that not only impacts our fund and our options but also the wider pension fund community.

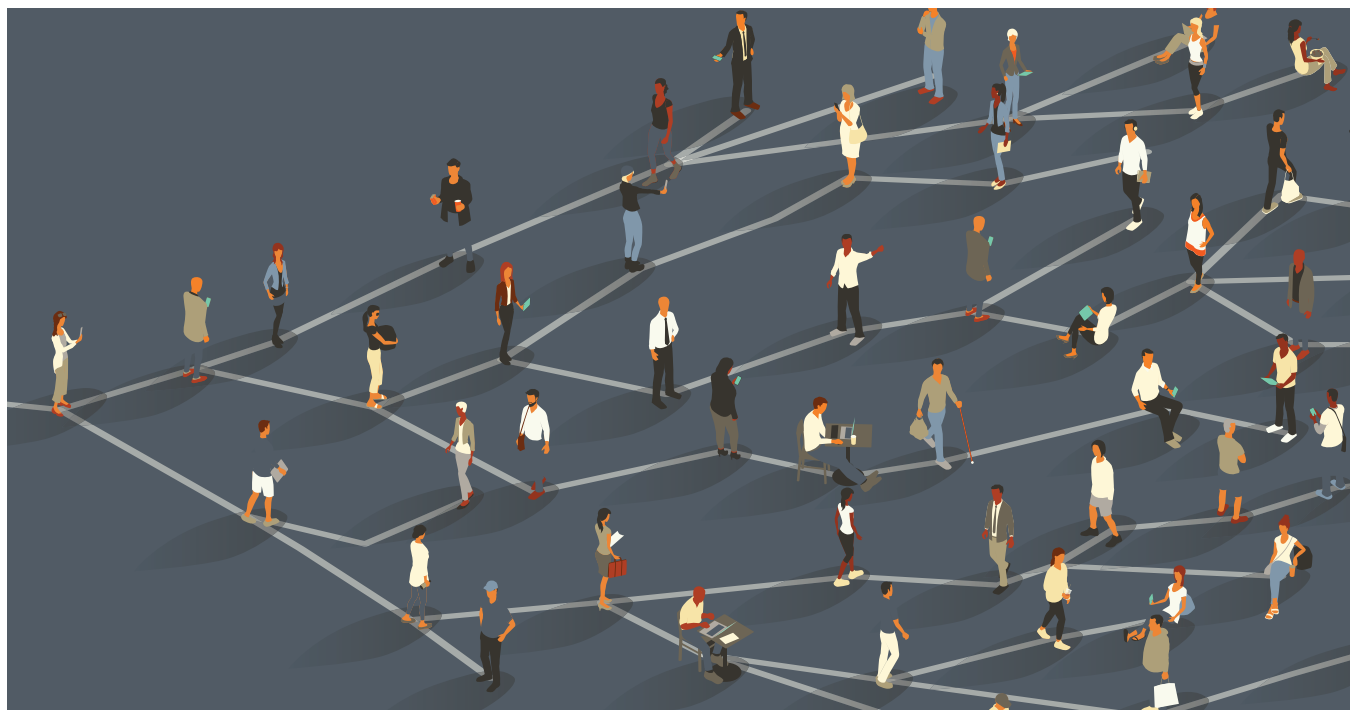
Therefore, throughout 2023, we have been working with all sides of the bulk annuity transaction (pension schemes, insurers, advisors and regulators) to review and make recommendations about how sustainability is incorporated into these transactions.

The result, agreed in 2023 (and launched in January 2024) is a [Sustainability Principles Charter for the Bulk Annuity Process](#). It signals a significant collaboration between 20 founding signatories (including the Pensions Board and the six largest pension insurers representing more than 90% of the bulk annuity market), which focuses on transparency, decision-making, reporting and engagement, and collaboration. The Charter encourages consistency on best practice between pension funds and insurers. It marks the start of what we hope will be a fruitful collaboration that will result in better outcomes for members.

A SUSTAINABILITY PRINCIPLES CHARTER



TRANSPARENCY
DECISION MAKING
REPORTING AND ENGAGEMENT
COLLABORATION



UK water utilities

In winter 2023 the Archbishop of Canterbury received an email from the comedian Joe Lycett. The correspondence was referenced in February 2024 in a Channel 4 documentary "Joe Lycett vs Sewage", and is reproduced in reduced format. You can read the whole letter on our website. Our response highlights the sector-wide engagement we are undertaking on this topic.

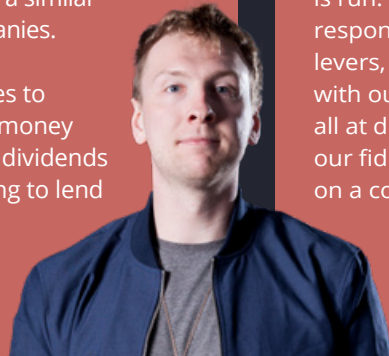
Subject Joe Lycett vs Sewage

Dear Archbishop who art in Canterbury,
... The reason I am messaging you now is that you and I have something in common... we are both shareholders in Severn Trent Water – I am a shareholder because my father (who art in Birmingham) bought me some shares when I was a baby. You are a shareholder as a result of investments made by the Church of England pension fund (fair enough, we all have to plan ahead for a rainy/ judgement day).

I know that you legends like to make ethical investments, and previously cut your financial links with oil and gas companies like Shell over climate concerns. I'm now asking you to join me and make a similar gesture in regard to the water companies.

We're calling on the water companies to change their ways, and spend their money preventing spills rather than paying dividends to shareholders. Would you be willing to lend your support to this worthy cause?

Yours (o come all ye) faithfully,
Joe Lycett



Dear Joe,

Your email to the Archbishop of Canterbury's office has been passed to the Church of England Pensions Board.

We recognise that there are many different factors that shape corporate behaviour, including the legal and regulatory environment, feedback from stakeholders including customers and investors, and public opinion. We are proponents of the important role that investors can play as part of that ecosystem. Having a financial holding does afford the Pensions Board rights to engage with a company's Board and Executive, as indeed is open to you while you remain an individual shareholder – for instance, taking up the right as a shareholder to attend the AGM and raise a question to the company Board in that forum, and to vote on proposals about how the company is run. We find that companies respond to a combination of these levers, and in our engagements with our holdings we utilise them all at different points in line with our fiduciary duties and dependent on a company's responsiveness.

Whilst the sector is rightly under enormous scrutiny, we are also conscious that not all companies are the same, with some having better records and determination to improve than others. Where our analysis indicates that we have a useful role to play, our preference is to remain invested as a means of applying influence. However, as recently demonstrated by the example you mention of the Pensions Board's divestment from the oil and gas sector, the Pensions Board does not rule out disinvesting from companies or refusing to fund future debt if we believe the management are not suitably responsive to our engagement. That form of escalation could also be an option for water utility companies, but it is not one that we are recommending to our trustees as being necessary at this stage.

In line with our strategic approach, we are currently seeking to engage with the whole UK water utility sector, as well as with peer pension funds who are similarly invested in the sector. We are particularly keen to determine how the sector can transition

from where it is today to one that can not only regain its social licence to operate but also robustly retains it.

I hope that this provides some context for the approach of the Pensions Board. Whilst you and the Pensions Board may on the face of it have different approaches, we believe and hope that they will both contribute to the desired impact that we share – a water utility sector that operates to the benefit of the customers and wider public who depend on these services and natural resources.

Thank you again for your email to the Archbishop of Canterbury, and wishing you a happy Christmas.

Yours sincerely,
Adam C.T. Matthews
Chief Responsible Investment Officer
Church of England Pensions Board

Our engagement with water utility companies continues into 2024, and we will report on progress next year.

These are abridged versions of the correspondence. Mr Lycett referred to his letter in the Channel 4 Documentary "Joe Lycett vs Sewage", and the full text of the Pension Board's letter is available here: <https://www.churchofengland.org/media/finance-news/response-joe-lycetts-letter-about-water-companies>

INVESTING FOR A SUSTAINABLE WORLD

Our investments make an impact on the world and we want it to be a positive one. We are committed to ensuring that as investors we support efforts to tackle climate change.

Climate change and biodiversity stewardship

Climate change is a systemic risk to the global economy, as well as the lives and livelihoods of our beneficiaries and the world into which they will retire. In 2023, we released the Board's inaugural Climate Action Plan (CAP) which sets out our approach to managing climate risks and our approach to using stewardship as a key lever to accelerate climate action. The key aims of our Climate Action Plan are:

- To serve our beneficiaries by addressing climate risk and realising competitive returns to meet our pensions commitments across the short, medium and long term.
- To play a leadership role, in line with the expectations and ambitions of our beneficiaries, aimed at limiting global warming to no more than 1.5°C above pre-industrial levels.
- To reach net zero in our investment portfolio by 2050. In 2023, we made the significant decision to divest from our remaining oil and gas holdings following five years of dedicated, robust engagement with portfolio companies in this industry. Accordingly, our stewardship approach has shifted, and in our new plan, we highlight the following priorities:
 - Company engagement and stewardship, focused on demand-side sectors like autos, utilities and steel, as well as systemically important sectors like banking and mining.
 - Public policy engagement including engagement with issuers of sovereign debt and a continuation of our focus on corporate climate lobbying, a key blocker of climate action.
 - Investing in the transition to net zero, with a particular focus on emerging markets.

Our stewardship progress in 2023

159

Total number of engagements on climate change

34.7%

% of CA100+ companies producing a lobbying disclosure

68

climate-related shareholder resolutions we supported

64.3%

votes against management due to misalignment with our climate objectives (across lobbying, transition plans, O&G companies)

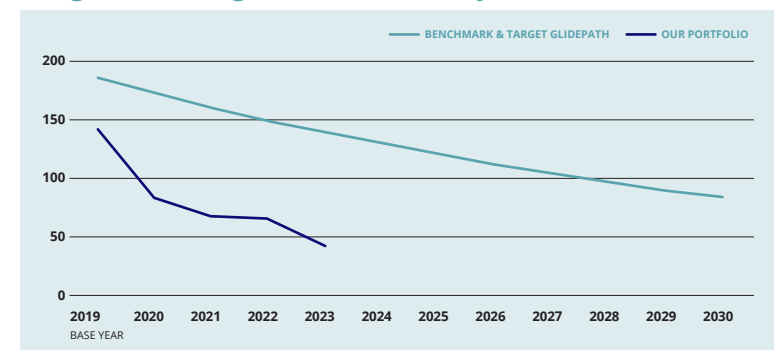
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public pre-declares in 2023 on climate-related votes

Our portfolio metrics in 2023

Metric	Benchmark & target glidepath	Our portfolio
Base year (2019)	187	142.2
2020	173.9	83.1
2021	160.8	67.5
2022	149.6	65.4
2023	140.3	41.7
2024	130.9	
2025	121.6	
2026	112.2	
2027	104.7	
2028	97.2	
2029	89.8	
2030	84.2	

Weighted Average Carbon Intensity (tCO2e/\$m sales)



Our progress against our portfolio targets

Metric	2021	2022	2023
Report on AUM % to climate solutions			4.9%
AUM to climate solutions vs the benchmark for public equity portfolio		+0.8%	+1.0%
% managers who are committed to net zero	n/a		50%
Reduction (WACI) in public equity, relative to 2019 baseline	-52%	-54%	-70%
Reduction (WACI) in bond portfolio, relative to 2019 baseline	-4%	+142%	+396%

The increase in bond portfolio WACI is primarily a function of an increase in the screened universe, rather than emissions. For more information on these metrics and targets, please see our TCFD report 2023, published separately.

Exiting the oil and gas sector

In June 2023, the Church of England Pensions Board announced its disinvestment from Shell plc and other remaining oil and gas holdings.

This decision followed more than a decade of 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 support companies setting 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. Careful consideration was given to this issue by the Investment Committee and the Board and was informed by our policies on climate change as well as

our investment beliefs. Trustees were also informed by the extensive scenario testing that has been undertaken to assess how the fund will perform under different scenarios. An orderly climate transition close to the goals of the Paris Agreement is by far the most preferred scenario to be investing against in the coming decades. Therefore, remaining invested in a sector that we had concluded after relentless engagement was not contributing to the extent possible towards an orderly transition occurring, and indeed was increasingly delaying action, was both financially (in terms of risk-adjusted returns) and ethically unaligned with our members' best interests.

Given this progress, and before the trustees ultimately decided to exit oil and gas companies in May 2023, the Board voted against management at BP, Ecopetrol, Eni

Spa, Equinor, Occidental Petroleum, Pemex, Repsol, Sasol and Shell, and voted for climate resolutions at Shell and BP calling on the companies to align their 2030 emissions reduction targets, including scope 3 emissions with the temperature goals of the Paris Agreement.

These exclusions apply to the main funds of the Church of England Pensions Board. We also announced our intention to align our smallest scheme to this approach (CAPF DC and Clergy additional contributions, the funds of which are not directly managed by the Board) but, due to the nature of the fund arrangements, this will take longer to implement.



Engaging on fossil fuel demand and financing

As part of its systemic stewardship approach and signalled in last year's objectives, the Board is now focusing on the key 'demand-side' sectors – or in other words, the companies that are the largest users of fossil fuels. By focusing on demand, rather than supply, we believe we can advocate for and impact a speedier and more orderly phase-out of thermal coal, oil and gas, which is in the best interests of our portfolio and our beneficiaries.

Following the first public assessments of banks by the Transition Pathway Initiative (TPI), we are also intending to commence engagement with banks in our portfolio on the risks and opportunities they face in the transition to net zero and due to climate impacts. We are advocating for stronger approaches from the banking sector in regards to their financing decisions, particularly regarding fossil fuels. Mining companies remain a focus for the Pensions Board, on climate and other topics. We want to support credible transitions for this sector that take advantage of the opportunities for mining in the net zero transition and rapidly move away from fossil fuels, critically, while also protecting social and environmental value, and acting as highly responsible operators.

Supporting credible climate transitions in the diversified mining sector

Many of the major mining companies have diversified (producing a range of minerals and metals). Many of these have a positive role for the transition and others may also have high carbon impacts. One of the challenges as an investor in the sector has been to ensure we have a fair and comprehensive way to understand these important companies such as Anglo American and BHP. That is why from 2022-2023, the Board acted as Chair for the development of a Net Zero Standard for the diversified mining sector. This detailed and ambitious standard was released in mid-2023 after a multi-year collaboration with investors, mining companies and other key stakeholders, including civil society. The Standard was developed by the Institutional Investor Group on Climate Change (IIGCC) in collaboration with its Australian counterpart, the Investor Group on Climate Change (IGCC).

The Net Zero Standard has a series of indicators that companies can be assessed against to determine whether they are taking a credible approach to transitioning to net zero. It includes elements of company plans such as emissions reduction targets, just transition for communities and workers, investment into metals and minerals that are essential for the climate transition, and addressing fugitive methane emissions. The Transition Pathway Initiative will release a pilot assessment of the Standard, which will be published in 2024.

In 2023, the Board was also invited by the HM Treasury-established Transition Plans Taskforce to chair the development of the Mining and Metals guidance, which was open for consultation until the end of the year. The guidance will be finalised and released in 2024. The Transition Plans Taskforce is a UK Government initiative to develop the 'Gold Standard' for company transition plans.



Engaging with National Grid on lobbying

Corporate climate lobbying

In 2023, the Board continued its focus on corporate climate lobbying following the publication of the Global Standard on Responsible Climate Lobbying in 2023 (www.climate-lobbying.com). This issue is important because we know the advocacy and lobbying undertaken by companies and sectors in our 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 our portfolio and our scheme members. Accordingly, we have been working on this issue since 2018.

In 2023, we saw public policy lobbying enhanced as a focus within both the Climate Action 100+ initiative and within the benchmark indicators used within that initiative. We also led significant advocacy within the responsible investment sector on lobbying, including speaking at events such as 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. We also publicly pre-declared our intention to vote against management at three companies on lobbying – National Grid, Toyota and Volkswagen.

Notably in 2023, following years of engagement and a legal case in Germany with other investors, we saw Volkswagen publish their first disclosure on corporate climate lobbying.

In 2023, we identified that UK utility company National Grid was yet to publish a public disclosure of its corporate climate lobbying approach, public policy positions and industry associations. In part prompted by our 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.

We 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 its July Annual General Meeting (AGM).

In late June, two weeks prior to the National Grid AGM, the Church of England Pensions Board publicly pre-declared our intention to vote against the Chair and CEO, based on this lack of commitment. This attracted considerable media attention.

Within a week, we were very pleased that the company agreed to reverse its position and has since published its first lobbying review (NB: this is due out in April 2024). The Board, accordingly, changed its voting position and updated its pre-declaration.

We have continued to engage with National Grid on lobbying and its transition plan, and maintain a positive and constructive dialogue with the company.

Challenge

A number of large companies do not yet follow best practice on lobbying, reviewing and publicly reporting on direct and indirect lobbying activities (see the Climate Lobbying Standard that we co-developed alongside AP7 and BNP Paribas: www.climate-lobbying.com).

Action

First we developed a global Standard on Responsible Climate Lobbying to define best practice. We then engaged companies to support it. For example, we engaged National Grid and said we would vote against management at the AGM.

Outcome

The company reversed its position, and subsequently published its first lobbying review. The change in approach prompted us to update our voting position and pre-declaration and no longer vote against the management. We also publicly welcomed the step the company was taking.

Investing in climate solutions

Aligning our portfolio with the transition to net zero

We have committed to targets to reduce the emissions intensity of our investment portfolio (also known as 'financed emissions') and to increase our investment in climate solutions. We have used the Net Zero Investment Framework (NZIF) to develop our approach, which is set out in our Climate Action Plan that was published in 2023.

For all of our passive equity investments, we use the TPI FTSE Climate Transition Index, which overweights companies that are assessed as having a strong forward-looking approach to managing climate risk and opportunity, and underweights companies who do not. In addition, we target a decrease in the carbon intensity of our public equity portfolio by 7% per annum.

The Investment Committee had two dedicated sessions within its meetings focused on climate solutions exposure in 2023.

We are committed to playing our part to invest in the climate solutions and transition needed globally. There is currently a significant gap between the amount of climate financing needed and what is being deployed. Over \$32 trillion is required in the 2030s alone, and \$126 trillion by 2050. More than 60% of this will need to be deployed in emerging markets.

The Pensions Board investing in the climate transition serves two purposes for our beneficiaries: it helps protect our investment portfolio and the retirement income of our beneficiaries against the risks of economic instability and loss due to climate-related economic shocks; and it offers the potential for strong growth, given that climate solutions investments are forecast to have a higher valuation than incumbent technologies over the medium term.

Over 2023, we refined our approach to climate solutions including developing clear definitions and frameworks to guide our capital allocation strategy. We also worked with data providers to assess our current climate solutions exposure. There are major gaps in current data coverage of climate solutions (or green revenues) across asset classes – with the greatest coverage in public equity in developed markets, and much lower coverage in most other asset classes including private markets, sovereign debt and corporate debt.

Our work in action

Investing in solutions



FTSE TPI Index



We remain invested in a fund that tracks the FTSE TPI Climate Transition Index. This is an investment strategy that uses assessments from the Transition Pathway Initiative to adjust the amount invested in particular companies. Those with better scores receive more investment, and those with worse scores receive less, or no investment. In this way there is consistency between our climate stewardship and the way we invest. In 2023, our investments tracking this index returned 16.7%.

DIF Capital Partners, one of our infrastructure managers, identified an opportunity for us to invest in the Cerro Grande wind farm in Uruguay, (see picture (left)). Cerro Grande is a 50MW project, consisting of 22 turbines. This project will contribute to the decarbonisation of Uruguay's electricity grid, and benefits from a 20-year power purchase agreement with Uruguay's state-owned electric utility company, UTE. Long-term contracted offtake agreements with credible counterparties like this are very helpful for investors like us, as they provide longer-term revenue certainty.

Climate solutions are an area of focus for the Board because we have identified that institutional investors have an important role in contributing to climate finance needs. According to Climate Policy Initiative analysis, climate finance is still falling far short of what is needed for the transition to net zero and is likely only around a quarter of what is needed. We are particularly focused on the opportunities within emerging markets, when we can find investment opportunities that have the right risk and return characteristics. The Board's approach to climate solutions investment is outlined in detail in its Climate Action Plan.

Launching ASCOR

A critical tool to accelerate climate financing

Many pension funds like us invest in sovereign bonds. These are issued by governments to attract funds to finance their priorities. The Pensions Board has approximately £80m invested in sovereign bonds. In committing to be net zero, we have been working through each of our investments to ensure we have credible ways to understand and measure their climate impacts, and identify the steps we need to take to align to our target.

This asset class is of particular importance and the Board has set up and co-led the development of the Assessing Sovereign Climate Opportunities and Risks (ASCOR) initiative to provide a framework of indicators to assess how countries are managing the low-carbon transition and the impacts of climate change.

The ASCOR methodology was developed by the TPI Centre and extensive public consultation undertaken in February 2023 with many stakeholders, in particular with governments as the issuers of sovereign bonds. Over 100 responses were forthcoming and the final framework was then tested with a pilot assessment of 25 countries, launched in November 2023.

ASCOR's assessments are grouped around three key areas: emissions pathways, climate policies and climate finance, with 13 sub-indicators including fossil fuels, climate adaptation and just transition. These help to create a clear picture of how climate change is being managed and addressed at sovereign level.

ASCOR will provide a firm baseline and engagement tool for the Board to use as it initiates sovereign engagement in 2024, as well as in engagements with companies domiciled in different regions of the world. The Board will also use ASCOR in its country-level prioritisation for its climate solutions investment approach and to engage our sovereign managers.

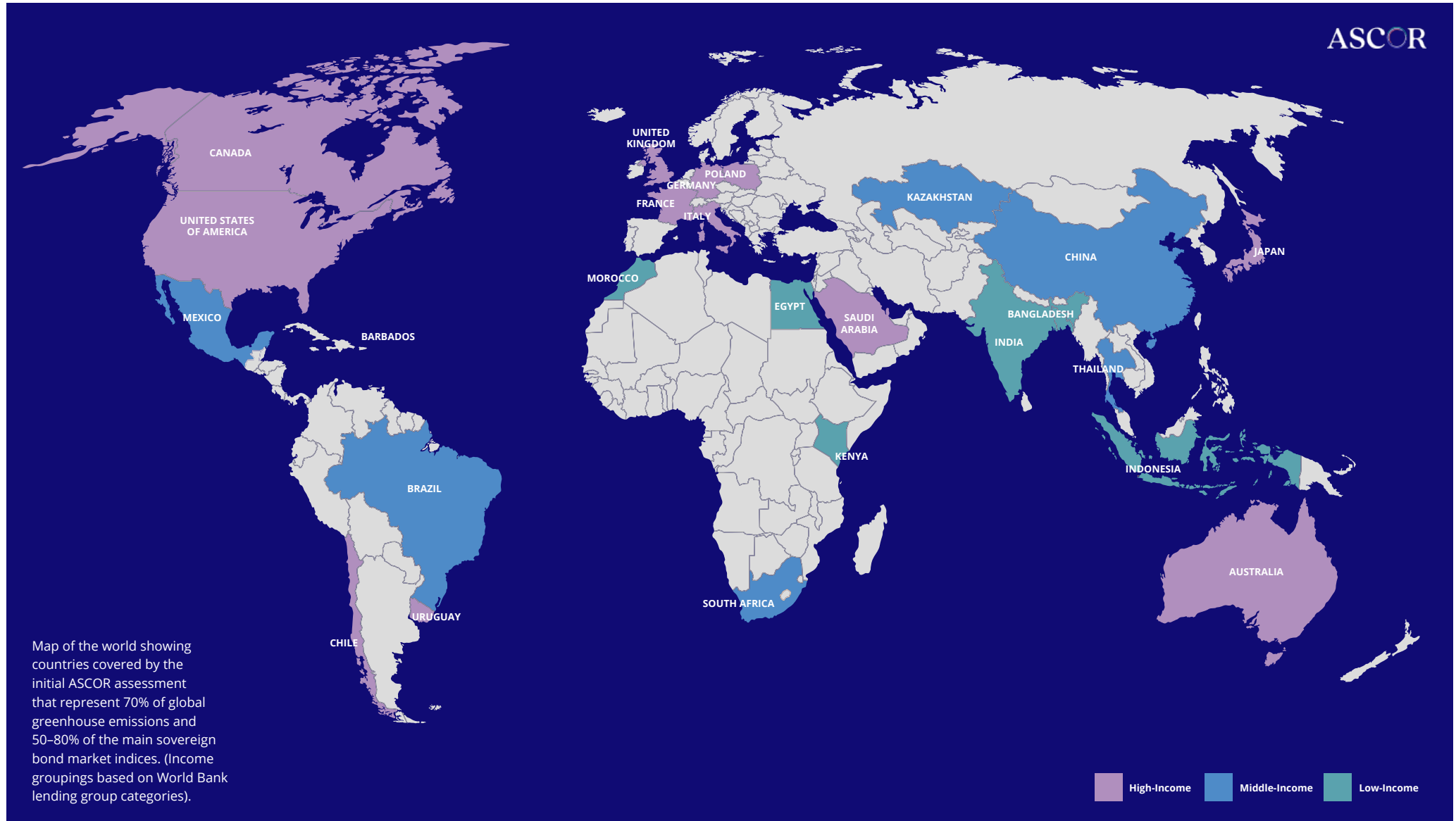


Jargon buster

Sovereign debt

This is where investors buy a bond that is issued by a national government. Governments use the incoming money to fund e.g. infrastructure or other spending, and in return they promise to pay interest to investors. Depending on the country, it is a relatively low-risk form of investment and many pension funds have significant sovereign investments.

ASCOR assessment





Our work in action

Collaborative engagement through Nature Action 100

Nature Action 100 is a global investor engagement initiative that focuses investor stewardship towards companies with the greatest opportunities to reverse nature and biodiversity loss. Nature Action 100 is led by Ceres, the Institutional Investors' Group on Climate Change, the Finance for Biodiversity Foundation and Planet Tracker.

The initiative has a focus list of 100 companies covering eight sectors: biotechnology and pharmaceuticals, chemicals, household and personal goods, consumer goods, food and beverage retail, food and agriculture, forestry and packaging, and

metals and mining. Investor engagement groups have been established for different companies and all companies have been called upon to improve their approach to managing biodiversity risk by taking actions such as: improving their assessments and measurement of biodiversity, improving transparency and reporting, establishing clear and robust approaches to governance, and making clear time-bound commitments and targets to halt and reverse biodiversity loss. The Pensions Board co-signed letters to all 100 companies, and is now engaging with three companies: Anglo American, BHP and British Associated Foods.

Our approach to nature and biodiversity

Biodiversity on earth is declining rapidly. A UN report found that three-quarters of land-based biodiversity and 66% of marine-based biodiversity has been significantly altered by humans, with nearly one-in-four animal species now threatened with extinction. This degradation of the natural world poses a threat to ecosystems including the food and water communities (and businesses) depend on, as well as social and cultural values that hold biodiversity to be important. The loss of biodiversity and 'ecosystem services' is also a major systemic risk to the global economy and, therefore, to investors and pension funds.

There are signs of change, however. Global agreements like the Kunming-Montreal Global Biodiversity Framework have increased global focus on these issues and there is greater scrutiny and attention on the actions of companies, many of which are starting to report relevant nature metrics and to set targets to restore nature for the first time.

The Pensions Board's approach has been guided by our existing policies on deforestation and environment, as well as sector-specific policies for extractive sectors, supermarkets and farmers. We have conducted an initial review of our exposure to deforestation, as well as joining several collaborative initiatives: Nature Action 100, Finance Sector Deforestation Action (FSDA), and a biodiversity-focused workstream within the Cambridge Universal Owner Initiative with other global pension funds.

INVESTING FOR A JUST WORLD

We promote fair reward, engage with government policy, human rights, good housing and decent work, and address antimicrobial resistance.

Department for Work and Pensions Taskforce on Social Factors

Social factors, such as human rights, inequality, labour rights, diversity, and stakeholder relations, tend to attract less concerted attention from investors than climate change. This can be for a variety of reasons such as perceptions on a lack of clear data or suitable metrics, or a lack of confidence in addressing issues that can be misconstrued as being political rather than financial. The Pensions Board takes the view that social factors are important, thus worth considering and acting upon, and as a result we have been strengthening our own activity in this area for several years. This is evidenced by the breadth of our proxy-voting policy (see pages 36, 38, 47ff), our in-house human rights monitoring process and the significant resource that we have dedicated for the past five years to addressing the multifaceted risks of tailings management in the mining industry. In recognition of our leadership in this area, in 2023 we were invited by the UK Government's Department for Work and Pensions to join a year-long Taskforce on Social Factors alongside other asset owners.

The Board has played an active role in shaping the Taskforce's guidance document, which is intended to help inform and encourage pension fund trustees to take social considerations into account in the way they invest on behalf of their members. Our contribution to this taskforce is a good example of systemic stewardship, where our work supports improvements in the way the wider financial system understands and acts on particular kinds of risks and opportunities. The resulting publication is available here: www.gov.uk/government/publications/considering-social-factors-in-pension-scheme-investments-a-guide-from-the-taskforce-on-social-factors/



“

Social factors have come to refer to several considerations for investors, such as organisations' workforce practices, especially labour rights and health and safety; supply chain and modern slavery issues; and inclusion and diversity.

Ultimately, social factors are all about people, how we come together as a society to produce and provide for each other within the boundaries of our socio-economic and environmental systems.”

From the foreword to the Taskforce Guide “Considering social factors in pension scheme investments”.

Fair Reward Framework

There is a range of good reasons why shareholders should be concerned with pay, both at the top of companies, and among the least well paid. At the top, as a responsible investor we raise concerns over excess and alignment with shareholder interests, and at the lower end, are concerned with real living wages and decent work (see page 32 below).

In 2023, we were among the 46% of shareholders who rejected the pay policy ballot at the UK company Pearson, which could have seen the CEO earn more than £8.8 million, an increase of about £2 million on 2022, when the CEO’s pay was already 181 times more than the average Pearson employee.

Part of the challenge with pay is that, even in cases where such a significant proportion of a company’s own shareholders formally express displeasure, the pay award may still go ahead. So, investors are scrutinising the decision-making processes as well as the excess that can result. Our Chief Responsible Investment Officer Adam Matthews has described the executive pay processes at listed companies as “overly complex... rabbit holes drawing inordinate time and energy”. He noted that “there is a broad consensus that executive pay structures are broken”.

These are all reasons why we have devoted significant resources over 2023 to the development of the Fair Reward Framework. We set up and chaired a group of UK asset owners, working in partnership with civil society organisation the High Pay Centre, which published draft indicators for public consultation in 2023. Feedback has been taken on board, and the FRF’s individual assessments of corporate pay policies and practices will begin to be published in Q1 2024, with input from data provider Minerva. For its pilot year, the FRF’s assessment will initially cover the UK’s largest listed companies, the FTSE 100. This framework represents an attempt to distil a set of

During 2023 the Fair Reward Framework was led by a steering committee that included:

clear indicators and create a dashboard that can support investors and other stakeholders when they scrutinise pay. The FRF methodology and indicators will be freely accessible (a public good), and the intended outcome is to elevate ambition within companies regarding the contribution that corporate pay practices can make to addressing inequalities, as well as to securing an investee company’s social licence and future sustainability (www.fairreward.org).

“

We hope the Fair Reward Framework will encourage companies to rethink the way they reward executives and the wider workforce, and move towards a fairer and more equitable pay structure”

Diandra Soobiah, Head of Responsible Investment at UK pension fund Nest

Our work in action

Decent work

People's terms of employment and levels of pay have a significant impact on business continuity and risk management, as well as on personal health and wellbeing. Within the Pensions Board's investments, our engagements in this area are long-standing and embedded within our voting policy (see page 47ff). The scope of our focus on Living Wage accreditation-related voting expanded in 2023 to cover the breadth of the UK's 350 largest companies (the FTSE 350). We also continued to monitor how companies are responding to two collaborative investor engagements: CCLA's Find It, Fix It, Prevent It initiative on modern slavery and Rathbones' Votes Against Slavery.

Low pay and exploitative working conditions are more likely to thrive in workplaces where there is no union representation, which is why we continue to voice our support as a responsible

investor for upholding Freedom of Association as a right under international law. During 2023, in addition to promoting better practice on transparency as a signatory of the Workforce Disclosure Initiative, we also supported a range of collaborative investor engagements that prioritise decent work. For example, we endorsed letters to Amazon.com urging them to support the right of UK warehouse workers to organise, and we voted in favour of a shareholder proposal at the same company that sought a third-party assessment of how Amazon.com's stated commitment on freedom of association and collective bargaining aligns with its conduct. More than 39% of votes were cast in favour of that proposal at the company's May 2023 AGM and we continue to monitor developments at the company. The National Church Institutions are proud to be an accredited Living Wage employer. The NCIs work in partnership with trade unions.

Challenge

Low pay and exploitative working conditions are more likely to thrive in workplaces where there is no union representation.

Action

We have supported collaborative engagements that prioritise decent work, including a proposal at Amazon's AGM for the company to review freedom of association.

Outcome

39% of votes were cast in favour of the proposal at the May 2023 AGM, and we continue to engage and use our votes to support changes in approaches by company management.

Our work in action

Equitable housing

The social housing sector continues to experience significant challenges, with an increase in the cost of debt for both corporations and individuals, a cost of living crisis and the increased cost of construction materials putting decent housing beyond reach for many. Against this background, we have continued to use the Archbishops' report Coming Home (<https://www.archbishopofcanterbury.org/media/2089>) to guide our stewardship. During



2023, our investor stewardship has taken the form of engagement with the sector's Sustainability Reporting Standard for Social Housing. Working with the housing team within the Pensions Board, we have provided detailed feedback on the Standard, and sought to strengthen its methodology in areas such as disclosures on payment of a real living wage to the workforce. In the coming year we will revisit our engagement with registered providers on tenant voice with a specific focus on how tenants are consulted and engaged on improvements to their homes and decarbonisation plans, and encourage the consideration of workforce directors and tenant directors on corporate boards.

Our work in action

Human rights in conflict-affected and high-risk areas

Geopolitical events from the past few years have brought into focus both the direct impact that violence in conflict-affected and high-risk areas (CAHRA) has on acutely affected populations and the turbulence that this can create for business operations locally and internationally. From the ongoing conflict in Ukraine, to renewed violence in Israel and the Occupied Palestinian Territories, and migration flows from areas as diverse as Myanmar and Nagorno-Karabakh, portfolios such as ours are exposed to a variety of financial risks because we are invested in a wide range of companies and real assets globally.

As a responsible investor operating under the EIAG's Human Rights guidance, we are committed to identifying, analysing and managing investment risks linked to business operations. Throughout the course of our annual human rights monitoring process, the issues we detect are frequently related to business conduct and human rights infringements in conflict or high-risk areas. In conflict areas like Mozambique we have engaged companies like TotalEnergies to support local community-led responses to the conflict in the region. We recognise that these are complicated issues and that understanding how a company is applying its policies on responsible business conduct requires the type of considered, concerted engagement that is often most fruitful when working in partnership with other similarly committed investors. To this end, over the past year we have joined or deepened our involvement

with several collaborative initiatives in order to make the most of our resources and potential impact.

We were pleased to confirm our participation in the PRI's Advance initiative during 2023, which is a multi-year initiative focused on engaging companies in the extractives and renewable energy industries on human rights – two business areas in which operations often intersect with high-risk geographies – through which we are focusing our involvement on an engagement with Siemens Energy.

During 2023, we also joined a small group of investors in working with the Investor Alliance on Human Rights, Heartland, and Peace Nexus to pilot a set of engagements with companies in the renewable energy and technology sectors, with a focus on CAHRA. We will be co-leading engagements in the coming year with two of our significantly-sized equity holdings. Companies in this collaborative engagement have been chosen specifically because they are already



demonstrating some elements of better practices on managing human rights risks, and we look forward to sharing more on the progress of these engagements in our next report.

Additionally, drawing on the EIAG's recently updated advice, we continue our involvement with the Big Tech and Human Rights initiative coordinated by the Swedish Council on Ethics, through which we are co-leading an engagement with Apple, and participating in engagement groups that address a range of conflict-related risks in the business models and practices of a range of other technology companies.

Our work in action

Antimicrobial resistance

The Pensions Board has been participating in an asset owner working group on antimicrobial resistance (AMR) since 2023, building on our involvement with the Cambridge Universal Owners Initiative, that identified AMR and biodiversity as two systemic priorities for attention among asset owners. AMR, which essentially results in antibiotics becoming ineffective, is already responsible for over 1.2 million deaths per annum globally, and this is expected to rise to 10 million by 2050.

Alongside the human suffering associated with AMR, it represents a systemic risk to society. Currently, there are only a limited number of antibiotics available and the risk of declining effectiveness is growing due to their routine misuse – for instance, through over-prescription, pharmaceutical waste, and incomplete courses of the medication in both humans and animals. During the

past year we have contributed to various knowledge-sharing and scoping activities among a diverse mix of representatives from Australasia, Europe and North America, with a focus on the meat supply industry and where we as asset owners potentially can deploy our influence through active ownership, advocacy and capital allocation.

In early 2023, we voted in favour of an AMR-related shareholder resolution at Tyson Foods, which encouraged the company to comply with World Health Organization guidelines on antimicrobial use throughout supply chains. The proposal was ultimately rejected as it only gained 4.58% of the vote. We continue to work with group chair HESTA, an Australian pension fund, and other investors in order to raise awareness and identify where our efforts might add value to addressing these risks.



Challenge

AMR poses a systemic risk to the global economy.

Action

We have supported awareness-raising and a shareholder resolution at Tyson Foods that sought to ensure the company complies with World Health Organization guidelines on antibiotic use in supply chains.

Outcome

The proposal was rejected, gaining only 4.58% of the vote. We continue to work to raise awareness, in partnership with other investors.

GOOD GOVERNANCE

This section includes our proxy voting (including case studies), screening, engagement with asset managers on diversity, and hearing our members' views.

Exercising our vote

The Pensions Board is unusual for a fund our size in exercising our votes at company AGMs ourselves, in-house, rather than through our asset managers.

This allows us to maintain control of our voting policy, incorporate voting as an escalation tactic and have greater consideration over key resolutions that are important to our scheme members. We also maintain and apply our own list of restricted companies, again using this as an escalation tactic in our stewardship processes.

Our position as an asset owner means that we have an opportunity to set expectations and work to ensure that sustainability is considered, applied well and in our interests across the institutions that we interact with, from our investee companies, our advisors and investment managers, to those we contract with (including insurers).

The Pensions Board regularly and routinely meets with our asset managers and includes stewardship as a standing agenda item. Both RI and investment professionals are involved in the selection, appointment and monitoring of asset managers. During 2023, the team met with our managers 32 times, the frequency of meetings matched to the underlying strategy. Topics covered included individual investments and ESG capacity (staffing and systems). We followed up with a number of asset managers on the Asset Owner Diversity Charter, providing feedback. We maintained our 100% coverage of our in-house ESG assessments, which are reported to the Investment Committee on a quarterly basis. We also met with our managers numerous times through engagement coalitions (for example, as members of the ASCOR steering committee).

Showing our support

17,623

proposals
voted across 44
markets, against
management 18.4%
of the time (17.1%
in 2022)

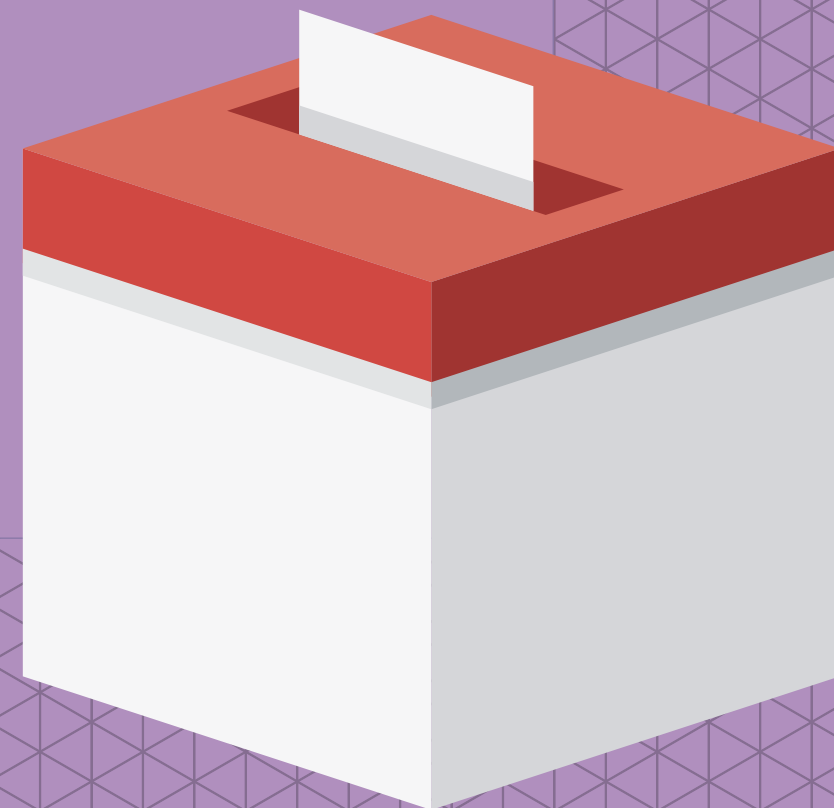
40%

of votes on compensation were
cast against management's
recommendation. See voting detail on
page 47ff and Fair Reward Framework
(page 31) for more information

64%

of 664
shareholder
proposals
supported

Votes cast on
99.6%
of eligible ballots



Engaging managers on diversity



In 2022 and 2023, we engaged all our asset managers under the Asset Owner Diversity Charter (AODC) programme. This takes the form of a comprehensive and standardised request of asset managers to report a range of quantitative and qualitative disclosures that relate to diversity. All managers responded, with 18 out of 20 completing the AODC questionnaire. The remaining two managers supplied relevant diversity disclosures. The responses were reviewed and scored, and managers were engaged on the topic during the year. Over time, the AODC collaboration expects this to create a positive pressure to improve diversity within the finance industry.

Throughout 2023, the focus of AODC has been on developing the Charter. It has long been an ambition

of the charter working group to imbed socio-economic background into the charter questionnaire, as there is widespread research showing that progression barriers exist in the investment industry for individuals from lower socio-economic backgrounds. Asset owners want to ensure that the managers they entrust with their assets have the best possible talent, wherever they are from. The questions introduced during the year build on the recommendations of the City of London's taskforce for building a more socio-economically diverse financial and professional services sector and are consistent with definitions that are used by the UK's Social Mobility Commission. We have also sought to align our questions with the proposals of the FCA and PRA in their consultation on diversity data.

The working group led the drafting of a response to FCA Consultation CP23-30 – Diversity and inclusion in the financial sector – working together to drive change. Our response was supported by 7 asset owners.

We raised awareness of the charter and the importance of diversity, equity, and inclusion by speaking at various conferences. Plans for 2024 include the launch of an advisory board, and our focus will be on circulating the questionnaire changes, kickstarting the advisory board and implementing a questionnaire review committee. The charter remains open to signatories, with a particular focus on building support outside of the UK.



In May, we appointed Helen Price (second from left) as Director of Governance. She is co-chair of the AODC, and the Board supports her continuation in this role.



Proxy voting

We exercise our right to vote at the AGMs of companies we invest in, and apply a bespoke set of policies. In 2023, we continued to use voting as a stewardship strategy, to send messages on pay and gender diversity, among other topics.

Resolution category	No. of votable resolutions voted	Dissent
Audit related	954	0.3%
Capitalisation	1,129	13.3%
Company Articles	338	5.0%
Compensation	2,382	40.0%
Corporate governance	37	78.4%
Director election	8,947	17.4%
Director related	1,632	11.7%
E&S blended	72	25.0%
Environmental	130	55.4%
Miscellaneous	49	18.4%
No research	53	0.0%
Non-routine business	82	12.2%
Routine business	1,499	4.9%
Social	244	63.5%
Strategic transactions	72	12.5%
Takeover related	119	2.5%

The Board pre-declared our voting intentions for the National Grid AGM, helping to secure a change from the management. See page 24 for full details on the engagement.

99.6%

percentage voted

18.4%

dissent

Voted on

664

shareholder proposals

Jargon buster

Dissent votes

When it comes to the AGM of a publicly listed company, management teams will hope that investors will support their recommendations. While we support management most of the time, voting against management, either by abstaining or voting against the resolution, is one of the core stewardship rights that asset owners possess. If we have a concern at a particular company, we may choose to use our vote to identify the board member with relevant responsibilities, and vote against their re-election. In other cases we may file our own 'shareholder resolution' which is put to the shareholder vote. The fact that we voted against 40% of all compensation votes around the world is an indication that we judge almost half of the most senior executives at companies we invest in either have excessive, unfair, or misaligned executive pay structures or awards.

This chart shows all of the topics on which we voted against management's recommendation

Director election	50.44%
Compensation	13.43%
Director related	9.20%
Routine business	8.45%
Capitalisation	6.36%
Audit related	5.38%
Other	6.74%

Virtual only meetings

Ballot category: Allow Shareholder Meetings to be Held in Virtual-Only Format

Our vote: We voted on 59 proposals and against management 17% of the time

Rationale: In the wake of the Covid pandemic many companies shifted their annual general meeting to virtual meetings. Some, however, had no choice but to postpone as their constitution prevented virtual meetings without shareholder approval to change. There is a variety of approaches to virtual AGMs, some are well run, and shareholders can engage and submit questions in advance, others face barriers and questions are restricted or prohibited. Whilst virtual AGMs can lead to significant increases in shareholder attendance, there is a concern that the lack of standardisation could hamper future shareholder engagement. Companies should be transparent on the instances virtual-only meetings will be used and the measures they will implement to facilitate questions, engagement, transparency and access. In many instances these proposals are a permanent change and being put forward with a lack of information on when virtual-only meetings would be implemented. In these instances we have voted against the proposals.

The outcome: All proposals passed, with between 10% and 32% dissent from shareholders across companies.

Follow-up: The proposal code has been added to our watchlist for closer monitoring in 2024. We will be raising awareness of guidance in our engagement with companies, e.g. FRC's report: Corporate Governance, AGMs: An Opportunity for Change. We are signing a letter calling on TSX-60 issuers to uphold shareholder rights at virtual shareholder meetings.



Company: Apple Inc

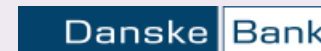
Ballot category: Report on Median Gender/Racial Pay Gap

Our vote: FOR

Rationale: We have consistently voted FOR this type of proposal which has been put forward at some of the largest US corporations (American Express, Morgan Stanley, Facebook). Given our concerns on fairness we are normally supportive of this type of proposal. The report will equip the company to understand any gaps and implement a strategy to address areas identified.

The outcome: The resolution attracted support from 33.8% of shareholders which, while not sufficient to pass the motion, demonstrates a considerable (and growing) strength of feeling among shareholders.

Follow-up: Reporting gender and ethnicity pay gap has been incorporated into the Fair Reward Framework which will be rolled out in 2024 (initially across the FTSE 100, but US application is planned). Ethnicity pay gap reporting will also be a feature session at the Asset Owner Diversity Charter event in 2024, where we have invited an asset manager to speak on its reporting followed by Q&A to break down barriers and encourage greater reporting by asset managers.



Company: Danske Bank

Ballot category: Climate Action Plan: Direct lending; and Climate Action Plan: Asset Management

Our vote: FOR

Rationale: 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 company's commitment to a progressive Climate Action Plan.

The outcome: The resolutions did not pass; shareholder support was 5.8% and 6.2% respectively.

Follow-up: The Board has joined the Institutional Investor Group on Climate Change (IIGCC) banks working group and is 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. We will be using the TPI framework as an input when reviewing our votes at banks' AGMs this year.

UK Asset Owner Stewardship Review

Whilst the Board implements its own voting in-house, most investors are in pooled funds and reliant on their asset managers to vote on their behalf. The United Nations and the Intergovernmental Panel on Climate Change have issued unequivocal warnings of the risks of delayed action on climate change, so it is worth assessing whether short-term interests of asset managers are overriding the long-term interests of pension funds. This is known as an agency problem, and was a particular concern at the AGMs of oil and gas companies in 2023.

An academic review was instigated by the UK Asset Owner Roundtable and led by Brunel Pension Partnership. We jointly commissioned the review to assess the degree of alignment between asset owner expectation and voting execution by asset managers. Alignment is critical to address systemic risk. The Board contributed to this study by joining roundtable discussions, sharing details of our approach and voting records.

The UK Asset Owner Stewardship Review 2023: Understanding the Degree & Distribution of Asset Manager Voting Alignment, Andreas Hoepner et al. report provided useful evidence and insights into misalignment trends, voting rationale and engagement and voting process differences. The report found misalignments and put forward potential reasons for the gap:

- **Cultural misalignment** – differences between UK and non-UK based asset managers
- **Resource allocation misunderstanding** – a misunderstanding of the importance of stewardship and voting, leading to insufficient resource allocation

- **Fiduciary duty conceptualisation** – misunderstanding fiduciary duty, particularly in terms of risk management related to climate change
- **Stewardship process disagreement** – differing views on the relationship between voting and engagement, some concerns raised about potential access loss to management if misaligned
- **Financial conflicts of interest** – potential misalignment due to commercial relationships between asset managers, banks and issuers could be studied, focusing on known conflicts of interest

Following publication of the report, a roundtable was held in October to discuss the findings of the report and possible next steps to improve alignment. Next steps being explored are extension of the research to include US asset owners, 1-1 and group meetings between the UK Asset Owner Roundtable's members and their investment managers and a set of stewardship expectations for asset managers.



Screening

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

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

Every quarter the Board uses a data provider called MSCI to screen an investment universe of approximately 10,000 companies to identify those to be placed on our restricted list. We also rely on Sustainalytics for additional screening on indiscriminate weaponry. In addition to the thematically

excluded companies identified by MSCI, the Board also operates an additional exclusion list that is based on the results of engagement and bespoke ethical research.

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

Screen category	No. of companies restricted*
Adult entertainment	3
Alcohol	96
Gambling	110
Cannabis	10
Thermal coal and tar sands	58
Climate alignment restrictions	53
Indiscriminate weaponry	24
Defence	93
Firearms	11
Tobacco	47
Predatory lending	17
Total no. companies restricted	447*
Additional special restricted	128**

* The total will not equal the sum of the screen categories, this is due to some companies breaching multiple categories, mainly defence and firearms.

**Special restricted companies are restricted as a result of unsatisfactory response to engagement, or where case by case judgement has been applied.

This list includes companies screened according to ethical investment policies of the Pensions Board, on which we take non-binding advice from the Ethical Investment Advisory Group.

Hearing the views of our members

More than 43,000 people across the Church rely on the Board for their pension. Our members work or minister in many different roles – and serving them well drives all we do. They place their trust in us to ensure their pensions are invested well and sustainably for the long term. Acting in members' interests requires that we use our voice and actions to drive change on issues that matter most to our members, and the world they will retire into.

We listen to and engage with our members on our responsible investment approach in several ways.



1

Through our links with other Church bodies, including the Ethical Investment Advisory Group and General Synod.

- The EIAG supports us with timely and practical ethical investment advice, based on Anglican and Christian theology. As the Church of England's pension provider, the link with the EIAG helps us ensure that we are investing in line with the ethics and ethos of the wider Church membership.
- We also regularly report to the General Synod (the Church's legislative body, with a diverse membership from across lay and ordained ministry groups) on key investment matters, and Synod members may put questions to the Chair of the Board. In July 2023, we updated Synod on our steps as a responsible investor in tackling climate change, including progress with engagement with the oil and gas sector over the previous five years. This session included questions and reflections from Synod members on the decision taken earlier in 2023 by the trustees to divest from its remaining oil and gas holdings.

2

We regularly include updates on responsible investment matters in general member communications. For instance:

- Directing members to our annually published Stewardship Report through their annual benefit statements.
- Offering links to details of our responsible investment approach on our online members portal. This has been gradually rolled out over the last few years, with more than 20,000 members now registered.
- Discussing the importance of good stewardship through our annual member webinar, which this year was attended or viewed by over 150 members from different schemes. This included a focus on how the Board is driving investor action on climate change, including in the automotive industry. As in previous years, members also had the opportunity to put their questions directly to our Chair and other colleagues.

3

We actively seek views on how well we are communicating with members about our work, so that their input can shape our future plans.

- Within the last year, we have undertaken further focus groups with members to get their feedback on the 2023 Stewardship Report. Their feedback has helped guide the development of this report, including a new focus on removing or explaining jargon. We have also given more insight into how we undertake key stewardship activities e.g. the process around casting votes at AGMs, again responding to feedback.
- These groups also highlighted a particular interest from members in the Board's actions in the mining sector, heavily featured in this report. We hope to build on that interest in further conversations with, and communications to, members in 2024.

Building on this engagement

As we step into 2024, we are keen to hear from members in all parts of the Church, and at all stages of their pensions journey, about what they think of our work. We are about to pilot a new survey of scheme members, focused in the first instance on our CAPF and CWPf funds, which will include specific questions designed to focus on the Board's stewardship approach and member views. We look forward to reporting on the results of this in next year's report.

FUTURE PRIORITIES

From climate and biodiversity to our social impact, our aim is to be a leader in ethical and responsible investment. We have focused on key activities to help us achieve this.



Priorities for 2024

Overarching mission:

The Pensions Board invests for the long term to deliver our pension promises. We will be a leader in ethical and responsible investment, acting in members' interests, and reflecting the Church of England's ethos and mission.

Key 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:

- To develop the Board's approach on biodiversity aligned with TNFD that includes portfolio analysis, reporting and stewardship.



- To 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.

APPENDICES

List of collaborations and our role in them

Collaborations are a crucially important part of our stewardship strategy. The Board's trustees retain ultimate decision-making responsibility, consistent with their fiduciary duties.

30% Club

We are a member of the 30% Club's UK Investor Group. This focuses on proxy voting and engagement in support of the Hampton-Alexander and Parker reviews' recommendations on gender and ethnic diversity, seeking 30% representation and at least one director of colour on company boards. Our proxy voting goes beyond this, requiring 40% female Board membership within the FTSE 350.

Access to Nutrition Initiative (ATNI)

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

Church Investors Group (CIG)

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

Climate Action 100+ (CA100+)

The largest engagement coalition of investors ever assembled coordinates efforts to mitigate transition risk at the world's largest and highest carbon-emitting companies. The Board leads on engagement with European auto manufacturers, and co-chairs the mining and steel working group alongside UBS.

Corporate Human Rights Benchmark (CHRB)

The Board formalised our support for this and integrates its assessments into our internal monitoring processes.

Financing a Just Transition Alliance (FJTA)

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

Find it, fix it, prevent it

The Board is a signatory of this initiative, coordinated by CCLA, seeking to address modern slavery in our society. The Board also participates in a modern slavery voting engagement group coordinated by Rathbones that has been profiled by UNPRI ([here](#)).

Institutional Investors Group on Climate Change (IIGCC)

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

The Investor Mining and Tailings Safety Initiative (IMTSI)

The Board chairs this coalition of over 110 investors with more than \$23trn AUM, which was formed in 2019 to address tailings storage risks in the wake of the Brumadinho disaster that killed over 270 people.

Powering Past Coal Alliance (PPCA)

We are a member of the PPCA, which works to advance the transition from unabated coal power generation to clean energy.

UN-backed Principles for Responsible Investment (PRI)

We are a signatory to the world's largest coalition of responsible investors, working to promote sustainable investment through the incorporation of ESG insights.

Transition Pathway Initiative (TPI)

The Board co-founded the TPI and continues to co-chair this \$40trn AUM investor tool, which assesses over 500 publicly listed companies on transition risk, both in relation to management quality and future carbon performance.

Workforce Disclosure Initiative (WDI)

We are signatory to the WDI, which in 2022 encouraged a record 167 companies headquartered in 24 countries to complete a comprehensive survey on their workforce (both direct operations and supply chains), including freedom of association, human rights due diligence, diversity, and pay ratios.

IAHR Engagement Group

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

Our significant votes

Below is a list of significant votes. The number of votes will not always correspond to the total number of companies as we may vote against multiple items on the same ballot.

Priority policy area	Our voting policy	2023 company votes	Companies	
Climate Change Lobbying	<u>Abstain</u> on the annual report and account applicable for CA100+ companies where there is a lack of disclosure of lobbying activities/trade association membership.	8	PACCAR Inc Wells Fargo & Company Eli Lilly and Company Meta Platforms, Inc.	Alphabet Inc. Caterpillar Inc. Toyota Motor Corp.
Climate Change TPI Framework & Management	<u>Against</u> the re-election of the Board Chair where the company is not at least Level 2 (i.e. companies assessed at level 0 and 1) of the TPI Framework.	3	Tesla Inc Li Auto Inc	Daido Steel Co., Ltd.
Climate Change TPI Framework & Management	Vote <u>against</u> the re-election of the Board Chair where the company is included in the CA100+ programme, in the electrical utility sector, or oil and gas or diversified mining sector, and does not have a TPI Performance Pathway that is either aligned with or below the NDC (Paris Agreement) pathway.	N/A	N/A (all companies in our portfolio met the threshold, so no votes were cast on this topic)	
Diversity Ethnic Representation	<u>Against</u> where the following combination of factors exists: <ul style="list-style-type: none"> the company is a FTSE 100 or S&P 500 constituent; the Chair of the Nomination Committee is standing for re-election to the Board; the composition of the Board of directors does not include at least one member from an ethnically diverse background; the member has served on the Nomination Committee since the last AGM. 	0		
Diversity Gender	<u>Against</u> where the following <u>combination</u> of factors exists: <ul style="list-style-type: none"> the company is a FTSE 350 constituent; the Chair of the Nomination Committee is standing for re-election to the Board; the composition of the Board of directors does not include at least 40% gender diversity; the member has served on the Nomination Committee since the last AGM. 	24	Antofagasta Plc Barclays PLC Centrica Plc Compass Group Plc Direct Line Insurance Group Plc DS Smith Plc GSK Plc IMI Plc Informa Plc Intermediate Capital Group Plc Intertek Group Plc London Stock Exchange Group Plc	M&G Plc Next Plc Ocado Group Plc Reckitt Benckiser Group Plc Rentokil Initial Plc Smith & Nephew plc Spirax-Sarco Engineering Plc St. James's Place Plc Standard Chartered Plc The Sage Group plc Unilever Plc Whitbread Plc



Priority policy area	Our voting policy	2023 company votes	Companies	
Diversity Gender	<u>Against</u> re-election of Chair of Nomination Committee where the composition of the Executive Committee is less than 33% female.	61	3M Company Alexandria Real Estate Equities, Inc. American Express Company Amgen Inc. Amphenol Corporation Aon plc Archer-Daniels-Midland Company AutoZone, Inc. Bristol-Myers Squibb Company Campbell Soup Company CenterPoint Energy, Inc. Charter Communications, Inc. Cintas Corporation Cisco Systems, Inc. Comcast Corporation Corteva, Inc. CRH Plc DuPont de Nemours, Inc. Eastman Chemical Company Equifax Inc. FedEx Corporation Garmin Ltd. Halliburton Company Huntington Bancshares Incorporated International Business Machines Corporation JPMorgan Chase & Co. Keurig Dr Pepper Inc. Kimco Realty Corporation Live Nation Entertainment, Inc. Lowe's Companies, Inc.	M&T Bank Corporation Marsh & McLennan Companies, Inc. Mondelez International, Inc. Monster Beverage Corporation Morgan Stanley NetApp, Inc. Newmont Corporation Old Dominion Freight Line, Inc. PACCAR Inc PepsiCo, Inc. Pool Corporation Prologis, Inc. Public Service Enterprise Group Incorporated Reckitt Benckiser Group Plc Schlumberger N.V. Starbucks Corporation T. Rowe Price Group, Inc. TE Connectivity Ltd. The Home Depot, Inc. The Kraft Heinz Company The Southern Company The Travelers Companies, Inc. Thermo Fisher Scientific Inc. Trane Technologies Plc Union Pacific Corporation WEC Energy Group, Inc. Wells Fargo & Company West Pharmaceutical Services, Inc. Whirlpool Corporation Xcel Energy Inc.
Diversity Gender	<u>Against</u> where the following combination of factors exists: <ul style="list-style-type: none"> the company is an S&P500, TSX 60, FTSE Developed Europe (excl. UK), S&P ASX 200 or an S&P NZX 50 constituent; the Chair of the Nomination Committee is standing for re-election to the Board; the Board does not contain at least two female directors; the member has served on the Nomination Committee since the last AGM. 	7	Coupang, Inc. Jollibee Foods Corporation OTP Bank Nyrt Pinduoduo Inc.	Sino Land Company Limited The Hong Kong and China Gas Company Limited Zhongsheng Group Holdings Limited



Priority policy area	Our voting policy	2023 company votes	Companies	
Diversity Gender	<u>Against</u> re-election of Chair of Nomination Committee where composition of Senior Management is less than 33% female – FTSE 350.	26	3i Group PLC Anglo American Plc Antofagasta Plc Ashtead Group Plc Barclays PLC Bunzl Plc CRH Plc Dechra Pharmaceuticals Plc Direct Line Insurance Group Plc DS Smith Plc Experian Plc Halma Plc IMI Plc	Intermediate Capital Group Plc Intertek Group Plc Legal & General Group Plc Mondi Plc RELX Plc Rentokil Initial Plc RS Group Plc SEGRO PLC Spirax-Sarco Engineering Plc St. James's Place Plc Standard Chartered Plc Tesco Plc The Weir Group Plc
Diversity Gender	<u>Against</u> re-election of members of Nomination Committee where composition of the Executive Committee is less than 25% female – FTSE 100.	9	Antofagasta Plc Ashtead Group Plc Barratt Developments Plc Bunzl Plc CRH Plc	Dechra Pharmaceuticals Plc DS Smith Plc Intertek Group Plc The Weir Group Plc
Diversity Gender	<u>Against</u> where the following combination of factors exists: • all other jurisdictions • the Chair of the nomination committee is standing for re-election to the Board • the Board does not contain at least one female director • the member has served on the Nomination Committee since the last AGM.	0		
Modern Slavery	<u>Abstain</u> where the company's modern slavery statement is in the lower quartile of either know the chain or the Business and Human Rights Resource Centre's ranking of the FTSE 100.	3	Aviva Plc Direct Line Insurance Group Plc	JD Sports Fashion Plc
Tax Transparency	<u>Against</u> Board Chair where the company (FTSE 350 and Russell top 50) shows no evidence of corporate tax management.	2	Costco Wholesale Corporation Accenture plc	



Priority policy area	Our voting policy	2023 company votes	Companies	
Mining & Extractives	<u>Against</u> re-election of Chair of Board where companies have not responded to the disclosure request made by the Investor Mining and Tailings Safety Initiative.	3	Daido Steel Co., Ltd. DOWA HOLDINGS Co., Ltd.	JFE Holdings, Inc.
Living Wage	<u>Against</u> FTSE 350 constituent where the company is not a Living Wage accredited employer or has met Church CIG's engagement standard.	32	Bunzl Plc Admiral Group Plc CRH Plc The Weir Group Plc Smurfit Kappa Group Plc Ocado Group Plc Reckitt Benckiser Group Plc IMI Plc Mondi Plc Phoenix Group Holdings Plc Direct Line Insurance Group Plc Antofagasta Plc Spirax-Sarco Engineering Plc Next Plc Intertek Group Plc Prudential Plc	Centrica Plc International Consolidated Airlines Group SA Tesco Plc Whitbread Plc JD Sports Fashion Plc Kingfisher plc J Sainsbury Plc BT Group Plc RS Group Plc Halma Plc DS Smith Plc Ashtead Group Plc Berkeley Group Holdings Plc Auto Trader Group Plc Smiths Group Plc Associated British Foods Plc

FRC Stewardship Code Report

UNPRI Six Principles mapping

UNPRI Principles	Section and page numbers
Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.	Pages 6, 7, 10-41, 47-50. See also our reporting against Principles 1, 2, 4, 7, 8, 9, 10, 11 and 12 of the UK Stewardship Code below.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.	Pages 6, 7, 10-41, 47-50. See also our reporting against Principles 1, 2, 4, 5, 7, 8, 9, 10, 11 and 12 of the UK Stewardship Code below.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.	See for example pages 7, 8, 10, 11, 14-17, 23, 24 (which includes a case study on disclosure), 26, 28, 30-34, 37 (including a case study engaging our managers for relevant disclosures), 39, 40 and 46. See also our reporting against Principles 4, 8, 9, 10, 11 and 12 of the UK Stewardship Code below.
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.	Our stewardship activity is often undertaken collaboratively with other investment institutions, see for example, the initiatives listed on page 7 “Catalysing global action”, and page 11 “Bulk Annuity Charter”.
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.	Our stewardship activity is often undertaken collaboratively with other investment institutions, see for example, the initiatives listed on page 7 “Catalysing global action”, and page 18 “Bulk Annuity Charter”.
Principle 6: We will each report on our activities and progress towards implementing the Principles.	This is the fourth Stewardship Report published by the Church of England Pensions Board, and complements various other voluntary and statutory reporting (including annual reports and accounts for the various schemes).

Financial Reporting Council Stewardship Code

The Board was pleased to maintain its signatory status to the UK Stewardship Code in 2023. The following report provides further explanation and cross-references to the content above, aligned with the FRC's 12 principles.

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

The Board's purpose, beliefs, culture and strategy are interconnected and outlined in a number of documents, including Our approach (pages 10 and 11). The Board's duties include providing retirement housing and pensions, set by the Church of England, for our 41,000 beneficiaries who have served or worked for the Church. The Board, as a Church of England institution, seeks to invest in a way that is consistent with the Church's ethics and ethos, guided by the Ethical Investment Advisory Group and the General Synod. The way we invest is outlined in the Fund Profile (page 5), and this Stewardship Report document should be read as an example of how the Board's purpose and investment beliefs have guided our investment strategy and the stewardship of investments. The third-party assessments of our programmes of work, for example as outlined in our TCFD report ([available here](#)) give us confidence that we have been effective in serving the best interests of our beneficiaries through the outcomes of our stewardship strategy.

Further details are available here:

- The Board's Investment Principles and Beliefs: [CofE.io/InvestmentPrinciples](https://cofe.io/InvestmentPrinciples)
- Our Annual Review: [CofE.io/2023AnnualReview](https://cofe.io/2023AnnualReview)
- Our Stewardship Implementation Framework, which details how we oversee and set stewardship expectations of asset managers: [CofE.io/PBStewardshipImplementation](https://cofe.io/PBStewardshipImplementation)

Our Schemes' Investment Principles and Beliefs were reviewed by the Investment Committee in 2023.

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

Consistent with our investment beliefs, the Board integrates ethical and responsible investment. The CIO and CRIO co-lead the investment team of 13 (as at 31 December 2023), under one budget, and report to the CEO. This structure is consistent with the Board's investment beliefs in relation to integrating ethical and responsible investment. The Board and

its Investment Committee are supported in their work on stewardship by the Executive, investment consultants and legal advisors (Mercer, LCP, Linklaters, Osborne Clarke) and non-binding advice from the Church of England's Ethical Investment Advisory Group (EIAG). The Board's Investment Committee regularly conducts "deep dive" sessions that incorporate training, and stewardship/ethics and engagement are a standing agenda item. Further detail on the processes that enable the Board to integrate stewardship are provided in the Board's Stewardship Implementation Framework (available at [CofE.io/PBStewardshipImplementation](https://cofe.io/PBStewardshipImplementation)), and the Board's Annual Review ([CofE.io/PBReview2023](https://cofe.io/PBReview2023)) includes reporting against our objectives to "Demonstrate leadership in ethical and responsible investment" and "Model good governance and stewardship". The Board, its Investment Committee and the EAIG regularly and routinely review their effectiveness. The Board's policies and commitments, outlined throughout this report, require significant expertise and operational capacity to be devoted to stewardship. We recognise that we cannot achieve the changes we are seeking without support and collaboration from external partners, advisors and fellow investors. The team's structure developed during 2023, enabling us to further build and maintain effective partnerships in our priority areas. In order to deliver on and develop our priorities of climate change and mining stewardship (to drive one to two major initiatives in each area), alongside delivering our core responsibilities (including voting at company AGMs, ethical screening, manager monitoring), the team has expanded to include subject matter specialists to lead on climate and environment, social topics, and governance. A Director, Governance (Responsible Investment) was recruited in 2023, along with additional analyst capacity supporting social programmes of work described above. Disclosures on the Board's diversity and pay are made in our Annual Report, available at [CofE.io/PBFinancialStatements](https://cofe.io/PBFinancialStatements). Staff undertake formal performance reviews every six months, and regarding Stewardship Code no. 2.6 the Board does not offer variable incentive payments. In order to act effectively on our investment beliefs around stewardship, the investment team comprises professionals with both investment and stewardship expertise (see the table on page 56). On stewardship, members of the team have extensive experience in leadership and responsible investment roles, relevant graduate, postgraduate and professional qualifications, and undertake continuing professional development (e.g. Investment Management Certificate qualifications). Alongside our investment consultants Mercer, the Board uses third-party service providers MSCI

(ESG data), Sustainalytics (ESG data), ISS (proxy voting implementation) and Refinitiv EIKON (investment and ESG data), and draws on the resources and expertise of a number of organisations that we work with, lead, or are members of, including the Principles for Responsible Investment (PRI), the Transition Pathway Initiative (TPI), the Institutional Investors Group on Climate Change (IIGCC), the Net-Zero Asset Owner Alliance and the other groups and coalitions outlined in our section on "Engagement Collaborations", where we also detail the nature of our involvement in the collaboration (page 46). Further details on how these providers' data are used are provided in the Good Governance section.

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

The Board published an updated Code of Conduct and Conflicts of Interest Policy in 2022 (www.churchofengland.org/sites/default/files/2022-03/CEPB%20Code%20of%20Conduct.pdf), which applies to staff, trustees and those co-opted to serve on committees. The Code requires members to observe the highest standards of impartiality, integrity and objectivity in relation to the business and management of the Church of England Pensions Board, and follows the Seven Principles of Public Life set out by the Committee on Standards in Public Life. The Code describes different kinds of conflict, including conflicts specific to the Board's stewardship activities. These conflicts may be direct and indirect, pecuniary and non-pecuniary. Sections 12–20 of our Code of Conduct outline the Board's policy and approach to handling and addressing conflicts of interest, including the registration of interests, declaration of interests, withdrawal from meetings and lobbying other members. The EIAG also operates a Code of Conduct that includes provisions for conflicts of interest. During 2023, and as standard practice, a summary of interests is attached to each Board agenda, and each meeting starts with declarations of new interests or existing interests which may be pertinent to any item under discussion. The quorum is tested after considerations of any conflicts of interest. Where a trustee may potentially have a conflict of interest in relation to a particular matter under discussion, it is usual for that trustee to recuse themselves from discussion or decision in relation to that matter. No conflicts of interest were found in relation to stewardship activity. Potential conflicts or areas of risk might arise – for example, if a committee member were to have a relevant relationship with an investment manager

Financial Reporting Council Stewardship Code continued

being considered for appointment, a company subject to engagement, or an advisory or consultancy tendering for work. These would be addressed following the Board's Code of Conduct, through registering and declaring actual or potential conflicts of interest, and withdrawal from meetings where appropriate. One area of broader interest for the Board is potential misalignment between our approach to stewardship and the stewardship policies of our asset managers, and the companies we invest in. Please see the reporting above (page 24) on corporate climate lobbying for one initiative to mitigate conflicts (misalignment) between the Board's stewardship interests and the lobbying that the companies we own fund. In order to address potential and actual conflicts with our asset managers, we incorporate stewardship reviews into our selection and appointment process, seek segregated mandates where possible, conduct all proxy voting in-house (which other pension funds typically delegate to their asset managers) and have incorporated stewardship into our regular asset manager monitoring and assessment. Further detail is available in our Stewardship Implementation Framework: [CofE.io/PBStewardshipImplementation](https://cofe.io/PBStewardshipImplementation).

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

The Board's two "Impact Engagement" stewardship priorities of climate change and mining address market-wide and systemic risks. These priority areas were identified and chosen by the Investment Committee after a process of evidence-gathering, review and deliberation, with support from the EIAG. The Board's approach to stewardship and investment decision-making in light of these risks, and our extensive collaborations, are detailed above. The systemic risk of climate change, and our approach to climate stewardship is articulated in our Statement of Investment Principles and Beliefs; our Policy on Climate Change (available at [CofE.io/ViewOnClimateChange](https://cofe.io/ViewOnClimateChange)), our TCFD reporting and our Climate Action Plan, which was first published in 2023 (www.churchofengland.org/sites/default/files/2023-11/6438-cofe_pensionboard_climate_action_plan_final.pdf). This report shows progress on our engagement with the mining sector, on tailings (mine waste) safety (pages 13-16) and in relation to a range of other important topics through Mining 2030 (page 17). We view a range of mining-related risks as systemically important. For example, tailings storage facilities pose a systemic risk due to their prevalence in the mining industry (see page 13-17 above), the severe impacts if they fail, and the mining industry's prevalence in supply chains globally. The Board focused on mining risks as a result of the EIAG's advisory paper on extractive industries, and through convening a series of investor-led multi-stakeholder roundtables after the tragic tailings accident at Brumadinho, Brazil. This sector has wider systemic characteristics, because the minerals and metals

it produces (including for example copper and lithium) are necessary in the transition to a low carbon economy. Our work, together with the UN Environment Programme and industry, to develop and drive the adoption of the Global Industry Standard on Tailings Management (see pages 14 and 17), supports improved resilience in the mining industry and supply chains. The section on systemic stewardship above additionally reports progress on two further systemic topics, the sustainability principles charter for the bulk annuity process (see page 18), where we are working to support sustainability in the financial ecosystem (principally with regard to pension insurers and advisors), and we identify some forthcoming systemic stewardship in relation to water utilities (page 19).

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

The Board's suite of ethical investment policies and processes is reviewed on a regular and ongoing basis by the in-house team, the Investment Committee, the Board, and the EIAG and its semi-independent Secretariat, and are subject to internal audit processes. The EIAG (which advises the Board on ethical investment matters in a way that is consistent with the Anglican ethos of the Board) operates under Terms of Reference that include a periodic "stock take" review of ethical investment and the suite of ethical investment policies. A 2022 "health check" (a survey of 30 stakeholders by written feedback and follow-up interviews) led to an ambitious plan to review and revise the full suite of ethical investment advice, which began in 2023, and to which the Pensions Board is actively contributing at both staff and trustee level. This is a structured review of policies, their goals, continued relevance and application. In 2023, the EIAG met four times (and additionally at working group level) and received a report from the Board on its stewardship activities on each occasion. In 2023, the Investment Committee undertook a "deep dive" review of climate change, including the various topics contained in the Climate Action Plan. The Board undertakes both internal and external checks on its Stewardship Report in order to verify that the reporting is fair, balanced and understandable. Externally the Board uses consultants to check that our reporting meets our needs in relation to the Stewardship Code and TCFD. This approach ensures that there are at least two levels of checks beyond the drafting team. In 2023, we hosted member focus groups to receive feedback on whether the report is balanced and understandable. Page 42 reports on changes made to the way we engage with members, and the outcomes of that consultation. We additionally use feedback from the FRC Stewardship Code team as a reference point for the standard of our reporting, and to help us improve each year. The Stewardship Report is ultimately approved by the CEO, Chair of the Investment Committee and Chair of the Board and submitted to our Investment Committee.

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

The Board has more than 43,000 members across three schemes. See the Fund Profile section (page 7) for a description of the Board's investment approach, a breakdown of our assets under management (by asset class and geography), the structure of various schemes and the Board's Annual Review (www.churchofengland.org/cepb) for a description of the Board's three schemes. Following our schemes' Statements of Investment Principles and Beliefs ([CofE.io/InvestmentPrinciples](https://cofe.io/InvestmentPrinciples)), the trustee recognises that the beneficiaries and the sponsors of the Scheme are part of the Church of England and that the Scheme's investments should reflect that as far as possible without compromising its objectives. The Board seeks ethical investment advice from the EIAG that is informed by Anglican and Christian theology, and the Board evaluates and acts on this advice in its adoption of ethical investment policies. The EIAG provides regular public reporting on its advice and the Board's ethical investment policies (see www.churchofengland.org/eiag/policies), and the Board regularly communicates directly with beneficiaries. This year, the Stewardship Report contains a dedicated section on how we engage with members, including the outcomes of 2023 engagement. Page 42 details our approach to member engagement, including our ongoing assessment of the effectiveness of that engagement. The Board convened a member workshop to provide feedback on our previous Stewardship Report and insight into members' views. We believe a dedicated deep dive workshop to be more effective than a questionnaire in eliciting high-quality feedback, though the selection bias is likely to be stronger (as more interested members – vs. the average member – are likely to offer their time). Participation and engagement with the workshop was good, and we plan broader engagement in 2024 in order to complement the depth of workshops. In 2023, the Board hosted a Member Meeting – open to the general membership, which provided an opportunity for break-out sessions on stewardship, live question and answers, and an invitation for members to provide additional feedback, which was positive. Over 250 members participated and bespoke sessions enabled members to engage with the executive on key aspects of our approach. This report is the fourth annual standalone Stewardship Report. Other communications channels include:

- We have a dedicated section in our Annual Report and a shorter Annual Review for beneficiaries. (The Board's Annual Review is available at www.churchofengland.org/cepb)
- We publish our annual Stewardship Report (this document) online, and will be publishing Implementation Statements for each of our schemes with their annual reports.

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- We have a dedicated section on our website about our major engagements.
- We have a communications capacity which targets specific media that our beneficiaries read.
- We deliver reports to the General Synod (equivalent of a parliament) of the Church of England as well as reports to Bishops and Archbishops on progress.
- We answer questions at General Synod, both in written and oral format, which is a public forum that is broadcast live from London and York each year.
- We have ensured that the TPI tool, and other stewardship-related information, such as details of the response we have received from mining companies engaged with, remains free and publicly available so that any trustee or beneficiary can access its analysis and hold us to account on engagement progress.
- We convene an annual member feedback workshop, inviting all members to participate.
- We publish all our proxy voting records, including the rationale for votes where we do not support management.

Our asset managers are required to follow our investment policies, and stewardship policies where applicable. The Board conducts engagement directly with issuers, and votes on our own shares internally (rather than delegating this to managers), so while we have detailed expectations of our managers, our stewardship policies primarily apply to our own activities, rather than those of our managers. We regularly review the approach of managers as part of a systematic manager monitoring programme. This is particularly relevant for managers of assets in non-public markets and especially private markets.

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

Stewardship is integrated throughout the Board's structures, processes and decision-making. It is integrated at the Board committee level and among executive leadership (the investment team is co-led by the CIO and CRIO), operationally through the close collaboration that investment and stewardship specialists have on manager monitoring, manager selection and in, for example, establishing our approach to individual proxy votes and shareholder resolutions. A good case study of this integration in practice is our work with FTSE Russell to develop the FTSE TPI Climate Transition Index where we collaborated to integrate climate considerations into the rules and tilts of the index. The Common Fund's passive equity investments all track this index. We also replicated the rules of the index with our active

managers. Our approach to ESG, stewardship integration and manager monitoring applies across all funds, asset classes and geographies, including all manager selection decisions. All managers are provided with either our list of restricted issuers (see Screening) or the categories of restricted investment (for alternative asset managers), and all asset managers are subject to our internal enhanced ESG assessment and engagement programme (see above). There are some differences across asset classes: in public equity our engagement with underlying holdings is most often direct, and there is no difference in our engagement, proxy voting, or escalation strategies across funds or geographies. In alternative asset classes our stewardship is primarily focused on and mediated by our asset managers, and our approach to manager monitoring is uniform across geographies (see pages 10, 37 and 40). At the policy level, the Board's Stewardship Implementation Framework ([CofE.io/PBStewardshipImplementation](https://cofe.io/PBStewardshipImplementation)) provides further detail on the way we integrate stewardship and investment activities, including through manager appointment, engagement and monitoring, and termination. In asset classes with limited ESG data, the Board's stewardship activity focuses on our relationship with, and assessment of, the asset manager. Further examples of systematic integration are provided in the following sections: under Principle 2 above; Our approach (p10,11), Climate change (p21-27), Mining (p13-17), Diversity (p37), Screening (p41) and voting (p36, 38, 39, 46ff).

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

Stewardship is a standing agenda item for manager update meetings, during which typically there is discussion of both the managers' stewardship approach and particular investments. Stewardship considerations and metrics (including climate change-related metrics) are included in the quarterly manager monitoring report considered by the Investment Committee. Manager monitoring and engagement is also incorporated into our 2023 Climate Action Plan. The Board's Stewardship Implementation Framework, notes, with regard to escalation: "The Board's Investment Committee believes that there are circumstances in which poor ESG and stewardship performance could warrant the termination of an asset manager's investment mandate." Regular meetings and due diligence questionnaires (for example, following the Asset Owner Diversity Charter) lead to a range of outcomes, including changes to our internal enhanced ESG assessment/rating of the manager (which is considered by the Investment Committee on a quarterly basis), actions and follow-up meetings, and amendments to documentation (for example, to reflect an agreed decarbonisation strategy). In the reporting period, all asset managers received an updated internal rating and one asset manager improved their score. The Board encourages its asset managers to join our collaborative engagement efforts. For example, the Board is co-chairing the

ASCOR project on the climate characteristics of sovereign debt (see page 26 and 27 above), and is joined on the steering committee by Colchester, the manager of our emerging market sovereign debt portfolio. Many other examples of positive stewardship collaboration with our asset managers are included in the reporting above. The Board undertakes and monitors proxy voting in-house (see pages 36, 38, 39, 47ff), including regular reviews of the recommendations provided by our service provider, ISS. Outcomes and insights from these reviews feed into our annual voting policy review process. We monitor our screening service provider and maintain our list of 'special restricted' companies (see Screening), which we add to the screening service provision from MSCI. Our service providers (MSCI and ISS) are monitored on an ongoing basis at an operational level, and through various compliance and quarterly reporting check-ins. These regular reviews provide us the basis to state that, on the whole, all of our stewardship-related service providers met our expectations.

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

The way the Board prioritises, monitors and evaluates our corporate engagement and the outcomes we have seen, including case studies, is detailed above. Some of the companies we engaged were not portfolio companies but are in our "investable universe" and/or in the supply chains of companies we hold investments in. They were engaged either with a view to restriction or under our priority engagement strategies. This engagement is based on systemic change being needed, and often sector-wide engagement is called for as the most effective approach. For more explanation, see the Climate Change and Mining sections. Our engagement with issuers often involves setting expectations (e.g. through the TPI, the IIGCC's Net Zero Investment Framework, corporate climate lobbying, in relation to disclosure and standards for tailings storage facilities, and workforce-related disclosures), and 2023 outcomes detailed above include escalation through proxy voting, further expectations-setting in engagement, divestment and various changes made that satisfied expectations. Our Stewardship Implementation Framework ([CofE.io/ PBStewardshipImplementation](https://cofe.io/PBStewardshipImplementation)) outlines the approach we take across asset classes. The case study on National Grid on page 24 demonstrates that changes were made as a result of engagement against expectations that we had set.

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

The Board's collaborations (and roles/contributions) are highlighted in the section on Collaborations, on page 46, where we also indicate our role in the collaborations. As stated in the section on Our approach (pages 10-11),



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and demonstrated throughout this report, we work in collaboration with other investors in order to amplify our influence (e.g. see the chart on our catalytic role on page 7). Our work on tailings (pages 13-16) continues to involve partnerships with over 110 investors, the industry association representing the largest publicly listed mining companies and the UN Environment Programme. The establishment of the Global Investor Commission on Mining 2030 showcases a multi-stakeholder model of stewardship, including representatives from communities, civil society, non-governmental organisations, academia, trade unions, law firms, investors and mining companies. The outcomes of our collaborative engagement are presented throughout the report above.

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

The Board's Stewardship Implementation Framework, Climate Action Plan and Business and Engagement Policy (www.churchofengland.org/eiag/policies) detail our expectations and escalation strategies for stewardship. In general we conduct stewardship against our policies in-house, rather than via our asset managers, though we do have general stewardship and ESG expectations of managers. Our ongoing monitoring of managers leads to a range of outcomes and escalation where there is misalignment between a manager's and our approach to stewardship, including changes to our internal enhanced ESG assessment/rating of the manager (which is considered by the Investment Committee on a quarterly basis), actions and follow-up meetings, and amendments to documentation (e.g. to reflect an agreed decarbonisation strategy). We involve asset managers in our stewardship programmes on a case-by-case basis, particularly where they have additional insight that can be brought to bear (e.g. via an active strategy). We have a special procedure for intensive engagement when severe ethical or responsible investment concerns arise. Engagement will normally involve multiple meetings with the company. Specific, measurable, achievable, reasonable and timely progress by the company is sought and monitored. Our Business and Engagement Policy and Climate Action Plan articulate our preference for engagement, but escalation can lead to disinvestment. By way of some examples of escalation tactics, in 2023 we divested from oil and gas holdings after a five-year engagement programme. We have also, for example, made public statements (e.g. listing companies that did not respond to the Investor Mining and Tailings Safety Initiative's ask that company leadership supports the Global Industry Standard on Tailings Management), pre-declared voting intentions (see National Grid case study above), voted against directors (we voted against management at 18.4% (2022: 17.1%) of all resolutions at company meetings), and reducing exposure (through the FTSE TPI Climate Transition Index). All of these escalation strategies were deployed in 2023. In asset classes beyond public equity,

stewardship escalation comprises monitoring, and assessing our managers and engaging with them in relation to our concerns. These assessments are also raised with our Investment Committee and part of our ongoing manager monitoring and assessments.

PRINCIPLE 12 Signatories actively exercise their rights and responsibilities.

The Board conducts portfolio-wide ESG, thematic and controversy analysis. This helps us to prioritise engagement and feeds into our manager monitoring. We vote our own shares in-house, according to our voting policy template (see "Our Significant Votes" section), thereby discharging the Board's responsibility to vote on its shares. In 2023, we cast 99.6% of the votes on ballot items on which we could have issued instructions (none of our public equity managers discharge voting rights on our behalf). We have invested in a senior in-house governance role that leads our voting processes. As a result we are able to apply expertise to exercise discretion (on the basis of the Board's ethical investment policies and corporate governance best practice) on resolutions that do not fall neatly under the template and on all shareholder resolutions. Case studies of vote outcomes are reported on pages 15, 39 and 47ff. The Board does not undertake stock lending, in part because we believe it impedes our stewardship capacity. In relation to fixed income investments, managers fall under our monitoring process, and our restricted list of listed issuers is applied so we deny debt financing to restricted companies. The right to restrict issuers is included in investment management agreements. Our manager selection process includes stewardship from the earliest stage, involves a requirement that the manager can implement our restricted list (as appropriate for the asset class), considers their capacity for ESG integration and stewardship, and diversity (see page 37). Our expectations in this regard are set out in our Stewardship Implementation Framework (CofE.io/PBStewardshipImplementation). Beyond public equity, our stewardship responsibilities are exercised primarily through our regular periodic asset manager engagement. Outcomes of this engagement include new reporting (on diversity in our asset managers' workforce, and in relation to climate), and bespoke processes that enhance our oversight of the responsible investment characteristics of underlying holdings. For example, our discretionary private equity manager produces bespoke ESG/ethical reviews of each underlying fund for discussion. Shares are monitored via our custodian (Northern Trust), through our ESG provider MSCI, and our internal stewardship integration processes. Voting rights are monitored via ISS, our voting and screening manager, and the internal processes we have in place as described in our answer to Principles 6, 7 and 11 above. We publicly disclose our votes and the rationale for our votes withheld or against management (cofe.io/VotingAndEng), and communicate directly with companies, prioritising FTSE 350 companies, our largest holdings and companies otherwise targeted for engagement.

The investment team

The Board's policies and commitments, outlined throughout this report, require significant expertise and operational capacity to be devoted to stewardship. The team's structure developed during 2022 in order to deliver on our priorities of climate change and mining stewardship, and deliver our core responsibilities (including voting at company AGMs, ethical screening and manager monitoring). The team listed right will be complemented with a Director, Governance (Responsible Investment) in 2023, along with additional analyst capacity.

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

Thank you

We have a remarkable team leading the work of the Board across our investment team and on behalf of our scheme members. I would also like to wish Tammy Woods the very best as she takes on a new role and we were delighted to welcome Helen Price as our new Director of Governance. Helen joins our two other Directors for Climate and Biodiversity (Laura Hillis) and Social Factors (Clare Richards). We are also thrilled that Mara Lilley has joined as our Analyst on Social Factors.

I would particularly like to acknowledge the key role the Board and the trustees play in scrutinising and engaging with our evolving approach to stewardship and in ensuring that this delivers upon our duties to our scheme members.

Adam C.T. Matthews

Chief Responsible Investment Officer

Michael Pratten Chief Investment Officer

Dan Taylor
Head of Manager Selection

Ryan Baker
Investment Analyst

Julie Dunne
Investment Operations Manager

Andrew Jones
Investment Operations Analyst

Shirell Adams
Investment Operations Assistant

Tammy Woods
PA to the CIO and CRIO (until June 2023)

Adam Matthews Chief Responsible Investment Officer

Stephen Barrie, PhD
Deputy Chief Responsible Investment Officer

Clare Richards
Director, Social (Responsible Investment)

Laura Hillis
Director, Climate and Environment (Responsible Investment)

Helen Price
Director, Governance (Responsible Investment) (appointed May 2023)

Theodore Cruthers
Responsible Investment Analyst

Mara Lilley
Responsible Investment Analyst

Our trustees

Our trustees are elected or appointed by the members and employers of the pension schemes, and other interested bodies. The Chair of the Board is appointed by the Archbishops of Canterbury and York with the approval of General Synod. In 2023, our Chair was reappointed for a further five-year term.

The Board of Trustees meets at least five times a year, supported also by committees covering housing, pensions, investments and audit. Some of these committees also have further members, who act to round out the balance of skills in each area.

We believe that governance works best when boards are diverse and representative of those they serve. That belief is also at the heart of the Asset Owners Diversity Charter, of which we are a founding member. In 2024, we will hold elections for Member-Nominated Trustees to the Board for the clergy scheme and for an Employee-Nominated Trustee for CWPF. For the first time ever, votes can be cast electronically, which we hope will broaden participation.

The Trustee Board as at the end of 2023:

Appointed Members:

Roger Boulton
Tony King
Clive Mather (Chair)
Canon Emma Osborne
Nikesh Patel
The Revd Caroline Titley
Ian Wilson

Scheme Member-Nominated Members:

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

Employer-Nominated Member:

Richard Hubbard

The Board is grateful too for the support of its expert advisors, including:

Scheme actuary: Lane Clark & Peacock LLP
Investment advisor: Mercer
Pensions legal advisor: Linklaters LLP
Covenant advisor: Cardano



We hope you find this report informative.
If you have any feedback, please email
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