



PENSIONS BOARD

STEWARDSHIP REPORT 2020

WELCOME

Welcome to the first of our annual Stewardship Reports of the Church of England Pensions Board. Investing responsibly in line with our members' interests is a key objective for the Board. Our ambition is that members should be able to retire well, confident that their pension funds are invested sustainably and in ways which are helping make a better world. We have an enormous responsibility to be good stewards of the assets entrusted to us, investing and managing those funds in a way that reflects the ethics and ethos

of the Church of England. This report sets out how we carry out that responsibility on a day-to-day basis, the change we seek to make by working with other investors, and the specific interventions we made on behalf of our members in 2020.



John Ball
CEO



Clive Mather
Chair of the Board



Vale's disaster in Brumadinho, my hometown, should have never happened. The nearly unbearable pain my community has faced has to be the ultimate wake-up call to the world that mining practices have to be dramatically improved. I feel fortunate enough to have encountered the Church of England Pensions Board and the Swedish Council on Ethics whose ethical motivation is to ensure that actions are taken on a global scale so that safety is in fact prioritised and that our voices are not silenced. Very important milestones have already been reached and we intend to keep on working together to achieve the goal of zero fatalities and respect to human and environmental rights.

Angelica Amanda Andrade from Brumadinho, Brazil
standing next to a photograph of her sister who was killed in the Brumadinho mining disaster

CONTENTS

5 OUR APPROACH

There are six interconnected facets of our investment strategy that ensure we invest in line with ethical and sustainability best practice and our Christian ethos.

8 CLIMATE CHANGE

How we invest on behalf of our pension fund members can impact the climate both positively and negatively. We challenge companies we invest in to act sustainably.

17 EXTRACTIVE INDUSTRIES

We are engaging with the mining sector following tragedies caused by the failure of tailings dams and the destruction of heritage sites.

22 SCREENING AND VOTING

We screen out stocks that do not meet our ethical standards and we vote against companies where they fail to act responsibly.

27 FUTURE PRIORITIES

We are using the scale of our investments to tackle critical issues such as climate change and mining safety.

29 APPENDICES

Some specific disclosures featured in this report, including alignment with the Task Force on Climate-related Financial Disclosures and the UK Stewardship Code.

This report is intended to meet the asset owner reporting requirements of the UK Stewardship Code 2020 and the Taskforce on Climate-related Financial Disclosures (TCFD).



The Board has set two key stewardship priorities, covering issues that will impact our members and the world they will retire into: climate change and extractive industries. These issues are inextricably linked and require systemic changes in the way companies operate, pension funds invest and in how we steward our assets. We know that no single pension fund or investment manager is sufficiently large or influential enough to drive change at the scale that is required. We therefore work in partnerships with others, leading major collaborations across the finance sector.

On climate change, we are entering the Transition Decade during which critical decisions will be taken that will determine whether the world succeeds in meeting the goals of the Paris Agreement. As a fund we have demonstrated it is possible to drive real world change through the interventions we have led over the past year, which in turn have improved the ways companies operate. The last year has brought new safety standards and transparency in operations across the extractives industry. On climate change, we have seen new carbon targets and changes in company lobbying practice. We also engage on a range of important issues, including gender and ethnic diversity, human rights, modern slavery and workforce management. We know we have much still to do and will no doubt be challenged on the way. We are committed and determined to drive real change on behalf of our members, investing their assets sustainably and in ways that serve their interests and those of wider society.

Adam Matthews
Chief Responsible Investment Officer

FUND PROFILE

“ We are a long-term, diversified investor that manages its funds in a way that meets our obligations to members and reflects the Church’s ethos and values. We are an active owner, committed to managing our investments efficiently, working with our fund managers to maximise long-term investment returns over decades. We integrate Environmental, Social and Governance (ESG) considerations throughout our investment decision-making, and work with other pension funds to drive performance and best practice in line with our responsible investment approach.

Michael Pratten
Chief Investment Officer



KEY STATISTICS

- More than £3bn in assets under management (AUM)
- Over 41,000 pension scheme members (clergy and church workers), across c.700 Church organisations
- One of the Church of England’s three National Investing Bodies (NIBs), alongside CBF Church of England Funds and the Church Commissioners
- Long-term institutional investor invested globally and across multiple asset classes
- Stewardship and Responsible Investment are integral to the way we invest

FUND PERFORMANCE FIGURES 2020

- The assets of the pension schemes returned 9.4%
- Annualised returns over the past five years have been c.10%

YR	%pa
1 yr	9.4%
3 yr	7.1%
5 yr	10.3%

These results are provisional and subject to audit.

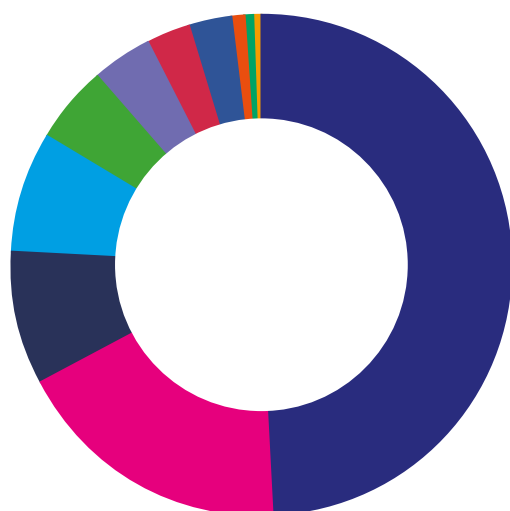
REPORTING: THE STEWARDSHIP CODE 2020 AND TCFD

This report provides disclosures recommended by both the UK Stewardship Code 2020 and the Task Force on Climate-related Financial Disclosures (TCFD). The Appendices (p29) present structured disclosures to those frameworks, but the main body of this report details our approach, priority areas and stewardship progress

in 2020. It should be read in conjunction with various documents already in the public domain, including our Statement of Investment Principles and Beliefs, our Stewardship Implementation Framework, our Ethical Investment Policies, and the published Advice of the Ethical Investment Advisory Group (EIAG).

HOW OUR FUNDS ARE INVESTED IN DIFFERENT ASSET CLASSES

Funds under management as at 31 December 2020.



Public Equities	£1,470m
Index-linked Gilts	£540m
Infrastructure	£360m
Property	£227m
Private Debt	£150m
Cash	£112m
Corporate Bonds	£86m
Emerging Market Debt	£79m
Private Equity	£25m
Currency Hedges	£21m
Alternative Income Assets	£11m
Total	£3,081m

OUR APPROACH

630+

companies engaged
in 2020, across key
sectors of the economy.

64%

of our Top 100
equity holdings were
engaged on at least
one ESG theme.

Leading major investor coalitions

We lead investor collaborations (TPI is supported
by 93 investors with US\$22trn AUM, the Mining
and Tailings Safety Initiative by more
than US\$22trn AUM).

39,000+

company resolutions voted
on, with 17.1% of votes against
management (or with support
withheld).

2

Won two of the five PRI
industry leading awards for our
Stewardship (Tailings Initiative)
and for ESG Implementation
(in the development of a new
passive Climate Transition
index with FTSE Russell
and TPI).

OUR APPROACH

The Board's purpose is to provide retirement services to our 41,000 members, who have served or worked for the Church. Following the Board's Investment Principles and Investment Beliefs ([CofE.io/InvestmentPrinciples](https://www.cofe.io/investmentprinciples)) stewardship is integral to being a responsible investor, in both financial and ethical senses of that phrase. Effective stewardship requires reliable data and good internal systems, capacity and integration, but also leadership, willingness to speak out, transparency and a commitment to developing and supporting long-term partnerships and collaborations.

Our Stewardship Implementation Framework ([CofE.io/PBStewardshipImplementation](https://www.cofe.io/PBStewardshipImplementation)) sets out the ways in which we deliver our approach to stewardship. The issues we choose to prioritise are vast, often systemic challenges

requiring fundamental change within a whole sector. By mobilising the power of the assets entrusted to us, and through partnering with other pension funds and investors it is possible to drive change in company behaviour. In 2020 we led multiple collaborations of investors comprising many trillions of dollars of assets under management (AUM) intent to see real world change.

The diagram below details our approach. Each aspect is mutually reinforcing, and all at the service of our members' long-term interests. We integrate ethical and ESG considerations into our asset manager monitoring and assessment, because we believe asset managers that can think and act on more than just financial grounds will perform better over the long term.



Ethical Approach

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



Collaboration and Asset Owner Leadership

No single pension fund is sufficiently big or influential enough in its own right to drive the level of change needed on issues such as climate change. Therefore, we regularly set up or support collaborations led by asset owners. We also recognise that there are times that we are uniquely placed to provide leadership across the investment industry globally on issues in line with our fund's objectives (see Climate Change, Extractives and page 26).



Transparency

Providing clear, measurable evidence of the approach we take enables better stakeholder understanding of our work. This is an important principle that also helps us model best practice within the investment sector. In 2020, we began disclosing the way we vote at all our company AGMs and continued to develop projects that promote transparency among the companies we invest in (pages 15, 18 and 24).



Tackling Systemic Challenges

Our investment time horizon is measured in decades rather than quarters, and we recognise that certain issues pose systemic challenges to our investments and the world our members will retire into. We therefore prioritise engagement on cross-cutting issues, such as climate change, and with extractive industries, and devise long-term interventions that seek systemic change on those issues (pages 8 and 18).



Integration

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



Stewardship

Responsibly allocating and managing our investments is central to our values. We are an active asset owner and dedicate in-house resources to proxy voting, maintaining a list of excluded investments, and delivering impactful corporate and policy engagement. Our approach includes developing collaborative tools to enable action across the finance sector in support of responsible investment and active stewardship (pages 11, 26 and 28).

JARGON BUSTER

WHAT IS THE DIFFERENCE BETWEEN AN ASSET OWNER AND AN ASSET MANAGER?

Asset owners are the individuals or institutions that ultimately own the investments. Many asset owners are pension funds investing on behalf of their beneficiaries or members in assets such as companies, property, bonds and infrastructure. Some asset owners do this directly, but many, like the Pensions Board, will select asset managers to do this on their behalf (e.g. at the end of December 2020, Legal & General Investment Management managed 28.02% of our assets/£863.4m for us, not including defined contribution scheme funds). In such cases, the asset manager holds the stock of a company but the asset owner retains the ultimate ownership, and the manager acts on their instructions.

CLIMATE CHANGE

A major issue for society and every investor is climate change. How we invest is likely to impact the climate both positively and negatively. Climate change makes weather patterns less predictable and more extreme, which affects human health, endangers property and destabilises communities and livelihoods, as well as impacting biodiversity and the environment. **Through the Anglican Communion we are acutely aware of the impact of climate change on the world's poorest and those least able to adapt to its impact.** This report applies to our investments. Clearly, as an organisation we also have greenhouse gas emissions associated with our operations, in particular our offices, transport and retirement housing. While these are much less than

the emissions associated with our investments, we recognise the importance of managing these emissions effectively. These operational emissions fall under the Church of England's General Synod ambition to be Net Zero by 2030.

In this section:

- Our strategy to address the global challenge
- Introducing TPI and the TPI Index
- Engagement case studies: on lobbying, Royal Dutch Shell, and our Synod commitment
- Portfolio tools: Net Zero Investment Framework and stress testing.

Image: iStock

ADDRESSING A GLOBAL CHALLENGE AT SCALE

The Pensions Board recognises climate change as a major financial, social and ethical risk: one that has the potential to impact significantly on the financial wellbeing of the members of our pension schemes as well as their quality of life in retirement. It directly challenges our ability to sustain a pension into the long term and is therefore a strategic risk that we need to manage. It may also add pressure to the covenant we have with the Church of England employers who pay into our schemes.

The world came together in 2015, in France, to form an international climate treaty – the Paris Agreement – that calls for a decarbonisation of the global economy. We believe that as an asset owner – the ultimate long-term owner of the investments – we are uniquely placed to drive change in the real economy in line with the goals of the Paris Agreement and in line with the interests of our members. We have a responsibility to set expectations and actively work to shape the financial ecosystem that influences the companies we invest in. We work to ensure the asset managers that act on our behalf are vigilant in applying our policies and expect the companies in which we invest to have targets aligned to the goals of the Paris Agreement.

Why we don't just walk away

The Board prioritises engagement with companies on responsible and ethical investment issues, and in many situations we consider this a more effective means of exercising our stewardship responsibilities than simply walking away and disinvesting of shares. Company engagement is carried out and monitored by our in-house investment team. However, this is not an open-ended commitment to engagement – where companies fail to meet our climate engagement expectations, as some have done, we will consider excluding them from our investments (see page 23) as the ultimate sanction.

Why we work with other investors

Through working collaboratively with others, we can maximise the impact of our engagement efforts. Within Europe we are active in the Institutional Investors Group on Climate Change (IIGCC), which forms part of US\$53trn backed **Climate Action 100+** (CA100+). CA100+ is the global climate engagement initiative supported by 540 different investors that targets the world's 167 most carbon-intensive companies. This group of companies alone represent some 70% of the carbon emissions of companies listed on the global stock markets.

Our most significant intervention, which underpins CA100+ as well as many other investor interventions, is the creation and continued leadership with the Environment Agency Pension Fund of the **Transition Pathway Initiative (TPI)** (see page 11). We co-founded the TPI as it was essential to have an independent, academically rigorous tool that could support robust and transparent engagement with companies. The TPI has become central to many investors' approach and in 2020 was selected to provide the public assessment framework for CA100+.

Within the CA100+ network, the Board co-leads together with one of our fund managers (Robeco) the engagement with **Royal Dutch Shell**. Additionally, together with the Swedish Public Pension Funds and the largest US pension fund, the Californian fund CalPERS, we are leading a major **development in investor engagement** by CA100+ to drive change in corporate behaviour across key energy-intensive sectors such as steel, road freight, cement, shipping and aviation, amongst others.

The Board has also been at the forefront of driving greater investor action on **corporate climate lobbying** and how companies fund lobbying of governments and public policymakers.

JARGON BUSTER

WHAT IS THE LOW CARBON TRANSITION?

From an investment perspective, climate change is best seen as a challenge of transition. That is, we need to take actions now that enable or support the early reductions in greenhouse gas emissions. This in turn enables atmospheric greenhouse gas concentrations to be stabilised at a level likely to keep temperature change to 1.5°C, relative to pre-industrial levels (equivalent to Net Zero carbon emissions). This requires the application of a holistic approach: attention must be paid to energy supply and demand, reducing fossil fuel use, patterns of consumption and land use, among other factors, as well as ensuring attention to, and providing a voice for, communities impacted by these changes.



APPLYING OUR INTERCONNECTED STRATEGIC APPROACH TO CLIMATE CHANGE



Commitment to act

Our 2015 Ethical Investment Policy on Climate Change sets out our approach. In 2018 we committed to Paris Alignment and divestment targets in fossil fuel sectors. In 2020 we committed to be Net Zero by 2050 or sooner.



Public policy engagement

We actively **support public policy interventions** through our membership of the IIGCC and Principles for Responsible Investment (PRI). Alongside Sweden's AP7, French fund manager BNP Paribas Asset Management and a range of partners, we lead a global programme to encourage **responsible corporate climate lobbying**.



Portfolio alignment & testing

We regularly test our fund alignment against climate scenarios and co-chair with Europe's largest pension fund, APG (on behalf of ABP), the IIGCC's **Paris Aligned Investment Initiative (PAII)**, created to develop a transparent and credible framework for pension funds to deliver net-zero commitments.



Understanding the transition

In 2017, we co-founded the independent, academic **asset owner tool**, the TPI with the Environment Agency Pension Fund, we continue to co-chair the TPI (on behalf of the National Investing Bodies (NIBs)) which is supported by 93 funds with over US\$22trn in assets under management (AUM).



Taking action & manager monitoring

We embed climate criteria and Transition Pathway Initiative (TPI) analysis in our **manager monitoring framework**. We have committed to allocate £125m to **impact investment** and £85m to **low-carbon infrastructure**. We are seeking low-carbon opportunities with a new **private equity mandate**.



Robust Stewardship & Engagement

We co-chair with UBS the **Mining and Steel Engagement Group** of Climate Action 100+. We co-created the **FTSE TPI Climate Transition Index** and have allocated over £800m of passive funds to it. We integrate TPI assessments into **proxy voting, engagement, and manager monitoring**.

THE TRANSITION PATHWAY INITIATIVE: WORLD-LEADING INVESTOR TOOL

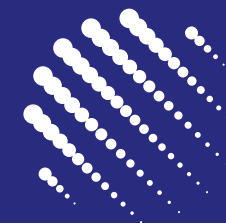
AIM

There are no quick or easy solutions to climate change, and having impact at the necessary scale means applying not just individual but collective, concerted actions. In recognition of this, in 2015 the Church of England's three NIBs resolved to be at the forefront of investors addressing the challenge of the transition to a low-carbon economy.

PROGRESS

To understand and engage effectively, it is essential that we have independent academically robust investor tools to understand what the transition means for companies and high-carbon sectors. To address this, in 2017 the Board co-founded the Transition Pathway Initiative (TPI), which provides assessments of the climate transition preparedness of 373 of the world's highest carbon emitting companies, representing over 70% of emissions from companies listed on public markets. TPI provides independent, publicly available and academically rigorous assessments of which companies are and are not transitioning in line with the goals of the Paris Agreement. TPI is supported by 95 other investors with over US\$22trn in assets under management.

We integrate the TPI's insights into our stewardship approach. TPI provides the indicator framework for CA100+, which is the largest investor engagement coalition in history, and TPI assessments are incorporated into our proxy voting template and into individual corporate engagements. Insights from the TPI are also included in the way we assess our asset managers and are incorporated into a passive index: the **FTSE TPI Climate Transition Index**, developed with FTSE Russell and the TPI team.



Transition Pathway Initiative

TPI: A DATA PARTNERSHIP FOR REAL-WORLD IMPACT

The TPI is a global, asset owner-led initiative which assesses the preparedness of companies and industries for the transition to a low-carbon economy. Using publicly disclosed information provided by the TPI's data partner, FTSE Russell and assessed by TPI's academic partner the London School of Economics Grantham Research Institute, the TPI assesses companies on two key criteria:

Management quality:

This evaluates the quality of a company's management of their greenhouse gas emissions, and of transition risks and opportunities.

Carbon performance:

This evaluates how a company's carbon performance compares, and how it might in the future, to the international targets and national pledges made as part of the Paris Agreement.

Companies are graded across five levels:

- Level 0** – Unaware of, or not acknowledging, climate change as a business issue
- Level 1** – Acknowledging climate change as a business issue
- Level 2** – Building capacity
- Level 3** – Integrated into operational decision-making
- Level 4** – Strategic assessment

More information and all analysis is available on the TPI website: transitionpathwayinitiative.org

CARBON PERFORMANCE OF MAJOR COMPANIES IN KEY SECTORS ASSESSED BY TPI IN 2020



FTSE TPI CLIMATE TRANSITION INDEX

AIM

A large part of the Board's investments are held passively and track the main public markets. In order to meet our objective to be a net-zero aligned pension fund, we wanted to embed the insights of a proven tool like the TPI. Development of this commercial product took 18 months and was designed to help the Board – which, by the end of 2020, had allocated over £800m to the Index – and other responsible investors with Paris-aligned long-term stewardship of our assets.

PROGRESS

In 2020, the Church of England Pensions Board publicly launched the FTSE TPI Climate Transition Index at the London Stock Exchange, together with the Bishop of London and representatives of the Bank of England and the United Nations. This was the first index that uses information on what a company plans to do on climate change to inform how much is invested in that company.

We had been challenged that creating such an index was not possible, but were delighted by the outcome of our partnership with financial data service provider FTSE Russell and the team at the London School of Economics Grantham Research Institute. The Index is an ambitious project, and this was recognised by the UN-backed Principles for Responsible Investment (PRI), which selected it for the prestigious 2020 ESG Incorporation Initiative of the Year award.

The holdings in the FTSE TPI Climate Transition Index will be adjusted once a year on the basis of how companies are assessed by the TPI. In theory, the Index is open to all publicly listed companies, but the 'weighting' of (determination of how much money is invested in) an individual company within it is informed by TPI criteria as well as other criteria, such as the extent to which a company generates its profits from green activities.

“We all have both a moral and financial responsibility to address the climate emergency and to use those tools available to us to support the goals of the Paris Agreement. For Christians and people of conscience, this is even more so when you see the impacts on the world's poorest and least equipped to adapt to extreme weather, as well as the impacts on the beauty of God's creation. The launch and commitment of £800m by the Church of England Pensions Board is world leading in not only embedding the insights of the Transition Pathway Initiative (TPI), that the Church co-chairs with the Environment Agency Pension Fund, but in demonstrating that it is possible to act, to take leadership, and in doing so challenge the market that is currently aligned to a world of 3.8 degrees of warming. I congratulate the Board and all those involved in this unique and industry-leading partnership and invite other pension funds to work with us in advance of the UN Climate Change Conference in Glasgow later this year.”

Justin Welby
Archbishop of Canterbury, commenting on the launch of the FTSE TPI Climate Transition Index, January 2020



JARGON BUSTER

WHAT IS A PASSIVE INDEX?

A passive index – such as the FTSE TPI Climate Transition Index – is a list of company shares (stock) that tracks a stock market or a group of companies, which retains a relatively stable composition over the long term. A 'passive' index is attractive to an investor who wants to limit the number of transactions (buying and selling) within their portfolios, which helps to minimise their costs. This is in contrast to 'active' investment strategies, which are generally more expensive as they involve numerous complex trades and more fluctuation in the stocks that are held.

HOW THE FTSE TPI INDEX WORKS

The Index combines FTSE Russell's climate data and expert index design, with the TPI's unique independent analysis of how the world's largest and most carbon-exposed public companies are managing the climate transition. The design incorporates five key climate data inputs:

Fossil fuel reserves

Underweight companies with fossil fuel reserves

Carbon emissions

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

Green revenues

Overweight companies generating revenues from the global green economy

Management quality

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

Carbon performance

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



THE TRANSITION DECADE: TAKING ACTION TO ADDRESS CLIMATE CHANGE AND SERVE OUR BENEFICIARIES' INTERESTS

“No single pension fund is sufficiently influential to tackle all the challenges of climate change. However, when we come together we can make a huge difference. Whether it is holding big corporates to account, spreading best practice or developing new financial instruments, the Church of England Pensions Board is determined to collaborate as effectively as possible with other funds and institutions. This puts us in the best position to serve the long-term interests of our beneficiaries and stakeholders. Developing the FTSE TPI Climate Transition Index is just one of a number of recent high-profile examples. It speaks to the impact we can make through collaboration, and demonstrates that, even if you are passively invested, you can still be very active in your stewardship responsibilities.”

Clive Mather
Chair, Church of England Pensions Board

ADDRESSING CORPORATE CLIMATE LOBBYING

If the world is to transition in line with the Paris Agreement goals, it is essential that we have an enabling and ambitious public policy environment. How companies use their influence over public policy is an important factor in determining the level of ambition of climate laws and regulations. Therefore the Board, together with our project partners, the €71bn of assets Swedish pension fund AP7 and the €483bn French fund manager BNP Paribas Asset Management, have continued our European collaboration on corporate climate lobbying. Our aim is to ensure companies are lobbying positively in support of the Paris Agreement goals, directly and indirectly via their industry associations. This means seeking greater transparency and governance of companies' corporate lobbying activity.

14 European companies commit to better governance of climate lobbying

Collaborating with global partners including InfluenceMap (an NGO that maps the influence of companies and trade associations on public policy), engagement shaped by this

lobbying project has seen significant success. **By the end of 2020, 14 European companies, out of a total of 21 target companies globally, had published a review of their industry association memberships**, bringing important new disclosure and governance of their memberships of powerful industry bodies. A number of companies also put trade associations on notice, stating that, unless they changed their lobbying positions, they would not continue their lobbying memberships. With our partners we intend to escalate our engagements to encourage further progress in 2021, including being prepared to file and support shareholder resolutions on climate lobbying.

Developing an agenda for responsible climate lobbying

In addition to seeking good governance by companies over negative climate lobbying, we have established a research project in order to create new global standards on responsible climate lobbying. The project is coordinated by the Board and delivered by Chronos Sustainability.

CA100+ ENGAGEMENT LEAD: ROYAL DUTCH SHELL

The Pensions Board together with one of our fund managers, the Dutch firm Robeco, continues to lead global engagement with Royal Dutch Shell as part of Climate Action 100+ (CA100+), the global investor initiative of over 540 investors who have more than US\$53trn in AUM.

Over several years, the Board has led discussions with the Chief Executive, the Chair and various senior executives, resulting in a series of commitments that were detailed in the first-ever joint statement between Shell and CA100+, which set out five areas of action by the company.

During 2020, and following further engagement with the Pensions Board and Robeco, the CEO of Shell set out new commitments to become net-zero aligned. As assessed by the independent TPI tool, Shell has made one of the most ambitious

commitments of an oil and gas company to date. That said, it does not yet align to 1.5°C of warming. But, as noted by the TPI, it can do so in future if there can be independent measurement of the company's proposed plan to stop selling its fuel to customers that are not themselves committed to net zero. The *Financial Times'* Editorial Board has highlighted the outcomes of the engagement led by the Board as a model for other companies.

Whilst the engagement with Shell continues to 2023, we are confident this engagement will deliver further



results, with additional developments expected from the company in 2021. Maximising the benefits of these investor efforts requires a deep, ongoing dialogue, supported by independent analysis from the TPI. If Shell transitions in line with its commitments and the expectations outlined by CA100+, this will mean it can remain a company in which the Pensions Board invests.

DEVELOPING A NET-ZERO FRAMEWORK FOR PENSION FUNDS

AIM

Committing to become 'net-zero aligned' as a pension fund requires knowing both how you can do it and how you will be able to measure yourself against that commitment. Although the Board has long been committed to the goals of the Paris Agreement, which in effect means being net-zero aligned in our investments by 2050, we knew a framework did not exist to measure progress. To address this gap, we led a collaboration with other European pension funds to create a framework to deliver these commitments transparently.

PROGRESS

We established and co-chair, along with Europe's largest pension fund (the €570 billion in assets APG on behalf of ABP), the IIGCC network's Paris Aligned Investment Initiative (PAII). Working on behalf of 70 global investors representing €16 trillion AUM, **the initiative has developed and published the first Net Zero Investment Framework**. The Framework's primary objective is to ensure investors can decarbonise their investment portfolios across all their asset classes and increase investment in climate solutions, in a way that is consistent with a 1.5°C net-zero emissions future. As part of this process, the Board has been one of five

DELIVERING ON GENERAL SYNOD COMMITMENT

In July 2018, the General Synod of the Church of England voted on a motion, with the support of the National Investing Bodies (NIBs), that "urges the NIBs to ensure that by 2023 they have disinvested from fossil fuel companies that they have assessed, drawing on Transition Pathway Initiative (TPI) data, as not prepared to align with the goals of the Paris Agreement to restrict the global average temperature rise to well below 2 degrees".

To meet this commitment, the NIBs have collaborated to develop a series of engagement milestones to gauge alignment with the Paris Agreement goals. By the close of 2020, in our assessment, a total of 12 companies had made sufficient progress, while nine companies were added to our list of restricted investments due to their misalignment with our climate expectations. These divestments totalled £32.23m across the three Church NIBs.

investors that have allowed their fund to be tested against this objective with one of the leading groups of economists working in this area, Vivid Economics.

FINDING VALUE IN STRESS TESTING OUR INVESTMENTS

In 2020, the Board undertook a series of technical tests to see how our investment portfolio performs in response to a range of climate change scenarios. Stress testing is an important risk management tool that uses insights into which sort of companies will be winners and losers in different climate scenarios.

For example, large, continued investments in oil and gas companies are shown to perform poorly in 1.5°C climate scenarios, relative to renewable infrastructure. We invest in relatively few oil and gas companies (due to our exclusions, engagement and the FTSE TPI Index), and have exposure to renewable infrastructure, and as

such have a more resilient portfolio than average under this scenario. The economic models typically employed by climate stress testers will also show how an individual investment portfolio compares to the wider market.

This year, the Board used five such tools: Mercer's Investing in a Time of Climate Change – The Sequel; Vivid Economics' stress testing; Aberdeen Standard's portfolio optimisation tool; the Paris Agreement Capital Transition Assessment (PACTA); and TPI assessments. (See page 36 for more detail.)

Overall, the various methodologies highlighted that the steps the

Board has taken on climate change (particularly the FTSE TPI Climate Transition Index) provide improved resilience and return benefits in some scenarios (e.g. 2°C).

The Board also adopted new overall climate-related targets, following our work in the PAII. These include carbon-related performance alignment by 2023 and a year-on-year improvement of at least 7% in relative carbon intensity or equivalent.

Our investment consultants Mercer have independently assessed our approach to climate change and consider us to be **CLIMATE AWARE 'FUTURE MAKERS'**.

EXTRACTIVE INDUSTRIES

78

companies engaged on indigenous community rights, after events in May 2020, when Rio Tinto blew up a 46,000-year-old heritage site in Juukan Gorge, Australia.

Project of the Year

Awarded Stewardship Project of the Year 2020 by the UN-backed Principles for Responsible Investment for our work to encourage safety improvements at mine waste sites.

US\$23trn coalition

We partnered with the Swedish Council on Ethics to lead the investor response to the Brumadinho disaster, resulting in the first global industry standard on tailings (mine waste) management, backed by leading mining companies and the UN Environment Programme.

SYSTEMIC CHALLENGES: TAILINGS DAMS

In January 2019, the collapse of a tailings storage facility at Brazilian mining company Vale's mine site in Minas Gerais caused the loss of 270 lives, widespread environmental damage, and long-lasting devastation to the local community. **The disaster in Brumadinho, Brazil should never have happened.** Compounding the tragedy for the affected families was the knowledge that their suffering was not unique. A little over three years earlier in November 2015, and only 80 miles away, a community near Mariana, Minas Gerais in Brazil had suffered huge destruction due to a collapsed tailings dam. The Mariana dam was operated by Samarco, a company owned by Vale and BHP, and that tailings dam failure had killed 19 people and spread pollutants across 415 miles of waterways.

OUR AIM

The Board believes that tailings facilities represent an underappreciated systemic risk, the neglect of which has been shown to have catastrophic effects on people and the environment. In the immediate aftermath of the

Brumadinho dam failure, we were determined to address this issue and committed to work with partners to ensure such a man-made disaster would not be allowed to happen again. Members of the Board were deeply moved when they hosted and met with a delegation visiting the UK from communities in Brumadinho and Mariana. A heartfelt appeal was made to the Board to continue its work whilst wanting to ensure the companies truly addressed the legacy of the disasters that had killed so many and caused so much environmental damage.

JARGON BUSTER

WHAT IS A TAILINGS DAM?

Tailings is the name given to by-products of mining operations, which include chemicals, tiny rock particles and water. Different types of dams can be created to store these waste products, and they are some of the world's largest engineered structures. The cheaper 'upstream' variant is constructed from the sediment itself as it settles and solidifies. This type of dam has been involved in a number of disastrous failures. All dams need regular monitoring and maintenance to ensure that faults are not developing. It is estimated that there are approximately 18,000 tailings storage facilities worldwide, of which approximately 3,500 are currently active.



Angelica Amanda Andrade, whose sister was killed in the Brumadinho disaster.



Professor Elaine Baker launching the Global Tailings Portal

PROGRESS IN 2020

Since 2019, the Board and the Council on Ethics of the Swedish Public Pension Funds have acted on behalf of the Principles for Responsible Investment (PRI) as co-convenors of a Global Tailings Review. In this, we have worked alongside the International Council on Mining and Metals (ICMM) and the UN Environment Programme. This Review commissioned the development of a Global Industry Standard on Tailings Management under an independent chair and expert panel.

To mark the first anniversary of the Brumadinho disaster, in January 2020 the Board hosted a Summit, chaired by the Bishop of Birmingham, the Rt Revd David Urquhart, on Global Mining and Tailings Safety, which brought together community representatives, investors, mining companies, global experts and international organisations to discuss tailings safety and progress on the Standard. August 2020 saw the launch of a Global Industry Standard on Tailings Management at an online

event attended by 2,000 participants. Subsequently, the Board and Council on Ethics of the Swedish National Pension Funds ended the year by contacting more than 350 mining companies on behalf of investors with US\$23trn in assets under management, asking them to confirm on their websites their support for the Standard, and to set out a timeline for their intended compliance. Compliance with the Standard is mandatory for members of the International Council on Mining and Metals, but take-up at company level across the sector will be key to the Standard's success.

"This continues to be a large-scale, ambitious endeavour between the Church of England Board and the Council on Ethics. We were honoured to be jointly recognised by the PRI's independent judging panel as 'Stewardship Project of the Year 2020'. However, we are acutely conscious that this award stems from suffering that should never have occurred, and that our work on this issue is not yet complete." **John Howchin, Secretary-General, Council on Ethics, Swedish National Pension Funds.**



Images of the victims of the Brumadinho disaster were displayed in remembrance at the Global Tailings Summit.



ENGAGING MINING COMPANIES ON INDIGENOUS COMMUNITY RIGHTS AND SOCIAL LICENCE

The world was shocked by the events of May 2020, when Juukan Gorge in Western Australian was blown up by Rio Tinto in the pursuit of iron ore. The Board engaged with the UK-Australian dual-listed company following this destruction of what was a culturally significant heritage site of more than 46,000 years (older than the combined age of Stonehenge, the Lascaux caves and the Egyptian Pyramids). After many months of public outrage at Rio Tinto's actions, a government inquiry, and widespread criticism of the company's internal culture and reporting structure, the fallout ultimately led to the departure of

JARGON BUSTER

WHAT IS A SOCIAL LICENCE TO OPERATE?

Social licence refers to the ongoing acceptance or approval of a mining project or company by stakeholders, such as its workforce, the local community, the general public, ethical investors and governments. Although social licence is somewhat imprecise as a concept, it is crucial for a mining company to maintain and renew it over time, as without it they will find operation of certain sites impossible.

the company's CEO and two senior executives. However, such individual accountability cannot restore what was lost, and our focus and our aim as responsible, long-term investors has to be on ensuring that such an event does not happen again.

PROGRESS IN 2020

As these events unfolded, the Board worked with the Council on Ethics of the Swedish National Pension Funds to form a coalition of international and Australian investors to consider the sector-wide issues the case raised. As with tailings, we identified that this individual case is indicative of a systemic problem for the sector. In October 2020, together with the Australian Council of Superannuation Investors, we coordinated a coalition of 64 global investors (representing some US\$10.2trn AUM) and wrote to 78 of the world's largest mining companies, requesting a review of their individual relationships with First Nations communities and Indigenous peoples. The letters requested further information on company policies, evidence of compliance with international standards and norms, and specifically how they ensure the negotiation of free, prior and informed consent. By the close of 2020, 33 companies had responded, and this engagement continues, with the aim of initiating a dialogue that will include input from community representatives as well as the companies.

LONG-TERM ENGAGEMENT: 2030 VISION FOR A REFORMED MINING SECTOR

The Board's ethical investment policy on extractive industries recognises the importance of mining to society. Mining done well can be a powerful force for development. However, when it goes wrong it can go badly wrong, causing loss of life and long-term environmental impacts.

It would be easy as an investor to walk away from the mining sector, but that would be at odds with the demand society has for the resources that are mined, many of which are essential for modern life as well as the low-carbon transition. **Through the Anglican Communion we are also uniquely exposed to the impact of mining in many communities and have been working with His Grace the Archbishop of Cape Town, Thabo Makgoba, in many South Africa to trial certain approaches.** Based upon our ethical policy, the Board is determined to play as constructive a role as possible to drive long-term systemic change within corporate practice in the sector.

During 2021, working together with the Board's partners in the Council on Ethics of the Swedish National Pension Funds (with assets equivalent to £130bn), the Board will be setting out a vision to reform the mining sector by 2030. Drawing on the lessons from our leadership of the global engagement on tailings dams, as well as work on climate change and indigenous rights, we believe that there is a partnership to be developed amongst companies and asset owners that can improve practice, enhancing the sector's social licence to operate and strengthening the confidence of investors.

To achieve this will require approaches that identify or define best practice and standards, the interventions

that will drive this, and then align the wider investor community behind the approach. Based upon our experience, we believe it is possible to see this level of change in one of the most challenging global sectors.

Specifically, we will be looking to address:

- the need for a rapid transition to net-zero emissions both in operations and in use of mined products
- a just transition for the workers and communities likely to be impacted by changing commodity demand and production practices, such as automation
- the relationship with artisanal mining and child labour in the mining of key commodities needed for the low-carbon transition, such as cobalt for batteries
- the rights of indigenous communities to ensure heritage sites are respected and protected
- protecting natural World Heritage sites and other protected areas
- protocols for deep-sea mining
- the legacy of tailings waste and the need to implement the global industry standard
- a circular business model that incentivises the reuse and recycling of products
- the pipeline of future engineers that will work in the sector.

WHY THE CHURCH OF ENGLAND PENSIONS BOARD?

We have demonstrated that we can drive change in the sector and believe it is essential that we do so in line with our ethical investment policy, and in the interests of our long-term investments in mining companies. Our engagement with the sector serves both our ability to identify and remain invested in progressive mining companies as well as the wider interests of society (mining has an important role in many supply chains) and the world into which our members will retire.



SCREENING AND VOTING

The Pensions Board devotes significant internal resources to ensuring that we fulfil our duties as a responsible shareholder, including exercising our voting rights. Based on policies informed by the Ethical Investment Advisory Group (EIAG), we maintain a list of excluded companies that derive their revenue

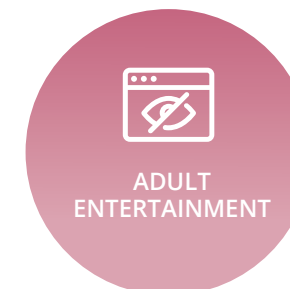
from business activities deemed incompatible with the Church of England's values and our approach to responsible investment. In addition, where companies persistently fail to comply with our engagement objectives, as a last resort we divest to restrict our exposure.

Image: Alamy

RESPONSIBLE STEWARDSHIP

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

We apply a series of revenue screens to our investments. The categories are set out below, and for more detail on the policy rationale and revenue thresholds please see: [CofE.io/EIAGPolicies](https://cofe.io/EIAGPolicies)



Every three months 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.

In addition to the thematically excluded companies identified by MSCI, the Board also operates an additional exclusion list that is based on the results of engagement and bespoke ethical research. This list of 'special' excluded companies is overseen by a screening committee comprised of representatives of the Pensions Board, the Church Commissioners and the CBF Church of England Funds (the three National Investing Bodies of the Church of England).

SCREEN CATEGORY	NO. OF COMPANIES RESTRICTED
Gambling	114
Alcohol	86
Defence	80
Climate Change	56
Tobacco	49
Special Restricted	25
Predatory Lending	16
Cluster Munitions/Landmines, Defence	15
Cannabis	9
Firearms	7
Adult Entertainment, Alcohol	1
Alcohol and Gambling	1
Total	459

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

PROXY VOTING

We vote at the Annual General Meetings of the companies in which we invest, and in 2020 we voted on 99% of eligible ballots. As responsible investors, we exercise our voting rights in line with our voting policy (see page 38), good practices, and in a targeted way that publicly raises our stewardship concerns to boards. We use a bespoke proxy voting template and the services of ISS to inform our voting.

Adjusting our voting during the pandemic

From April 2020, in line with the recommendations of the UN-backed PRI that “signatories should be supporting sustainable companies through this crisis – in the interests of public health and long-term economic performance – even if that limits short-term returns”, the Pensions Board together with the Church Investors Group adopted a

temporary proxy voting policy, with the aim of supporting companies to respond to the challenges posed by the Covid-19 pandemic. We therefore did not routinely support votes against the chairs or executive directors where we felt it could adversely impact a company’s stability during these unprecedented times. Nevertheless, we continued to challenge boards failing on climate change (as assessed by the TPI), tax transparency and executive pay.

Our decisions to vote against management recommendations on executive pay were driven by concerns such as excessive quantum, as well as breaches of good practices relevant to executive pay schemes. Our votes against management on director re-elections were linked to our concerns regarding a lack of consideration on climate change, gender diversity at board and executive level, and audit tenure, as well as board independence and composition. Our votes against management on capitalisation resolutions were mainly driven by concerns over controlling shareholders’ interests.

Shareholder resolutions

In 2020, we voted on 1,313 shareholder-proposed resolutions. We supported 61% of these resolutions, and in particular supported resolutions designed to improve shareholder rights (i.e. amend and adopt proxy access rights) and increase ESG disclosure (e.g. political donations, climate change and the gender pay gap).

Gender diversity

The Pensions Board fully endorses the Hampton-Alexander review’s recommendations, which set a framework to improve the representation of women on FTSE 350 company boards. As a result, we are active members of the 30% Club, an initiative of investors working to secure 30% female representation on FTSE 350 company boards, and we annually review our voting guideline on gender diversity. Since 2018 we have challenged companies where we felt there was a lack of female representation at board level; from 2020, we began voting against UK companies that fail to demonstrate strategies to attract and retain more women into senior positions, and we integrated our gender diversity voting across the globe. In 2020 we voted against the election of directors at 70 companies due to concerns regarding a lack of gender diversity.

HEADLINE FIGURES ON TOTAL VOTING

39,049
total votes

17.1%
voted against management (or withheld vote)

VOTING DISSENT BY ISSUE

75.2%
on Say on Pay

17.2%
on Capitalisation

12.6%
on Director Elections’
management recommendations

CHEVRON CORPORATION

Corporate lobbying activities that are inconsistent with meeting the goals of the Paris Agreement present regulatory, reputational and legal risks to investors. In 2020, a shareholder resolution was filed at Chevron by BNP Paribas Asset Management, our co-leads in the IIGCC corporate climate lobbying workstream, requesting that Chevron prepare a report on its direct and indirect climate lobbying activities, policies and oversight mechanism.

At the June 2020 AGM, the Board was among the 53% of shareholders who voted in favour of the resolution, which requested that the company assess the risks presented by any misaligned lobbying, and the company’s plans, if any, to



mitigate these risks. In December of the same year, Chevron became the twelfth oil and gas company globally to publish a climate lobbying review.

ALPHABET INC.

‘Big Tech’ firms like Alphabet have a significant potential to impact human rights through their supply chains and their products and services. The Church of England Pensions Board, along with the Church Commissioners, joined Hermes Investment Management, Loring, Wolcott & Coolidge, Robeco, and NEI Investments in co-filing a resolution that called on Alphabet to create a new committee to strengthen its governance oversight of human rights.

The resolution attracted the support of 16.2%. Given the company’s multi-class structure, securing a majority was unlikely from the outset as more than half the shares are owned by the company’s executive officers and board members. We continue to engage with Alphabet Inc.



Images: iStock, alamy

OCADO GROUP PLC

The Board believes that company pay structures should incentivise the generation of sustainable, long-term, shareholder value and reflect our members’ values. In 2020, Ocado company proposed a CEO remuneration package worth £58.7m, which is extensively higher than the median CEO pay for industry peers.

Even though in 2019 the company had received 24.1% votes in opposition for the binding policy resolution at the AGM, Ocado had not followed up on shareholders’ concerns, e.g. retesting of performance conditions (VCP) and the lack of adequate discount embedded into the scheme. At the 2020 AGM, shareholders, including the Pensions Board, signalled their continuing discontent about executive pay at the company: 29.8% of shares voted at the meeting were cast in dissent.



2020 ENGAGEMENT AND COLLABORATIONS

We work with others to achieve greater impact in our engagement. A group of investors speaking with one voice is more powerful than any single fund, so we actively participate in a range of networks and initiatives. During 2020 these included the following:

30% Club

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

Access to Nutrition Initiative (ATNI)

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

Church Investors Group (CIG)

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

Climate Action 100+ (CA100+)

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 Royal Dutch Shell alongside Robeco, and co-chairs the mining and steel working group alongside UBS.

Financing a Just Transition Alliance

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

Find it, Fix it, Prevent it

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

Institutional Investors Group on Climate Change (IIGCC)

IIGCC is a European coalition of over 275 investors (€35trn 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.

Mining and Tailings Safety Initiative (MTSI)

The Board leads the MTSI with the Council on Ethics of the Swedish Public Pension Funds. This coalition of over 110 investors with more than US\$23trn AUM was formed in 2019 to address tailings storage risks in the wake of the Brumadinho disaster that killed 270 people.

Powering Past Coal Alliance (PPCA)

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

UN-backed Principles for Responsible Investment (PRI)

We are signatory to the world's largest coalition of responsible investors, working to promote sustainable investment through the incorporation of environmental, social and governance insights. We achieved A and A+ grades for our 2020 PRI report.

Transition Pathway Initiative (TPI)

The Board co-founded the TPI and continues to co-chair this US\$23trn AUM investor tool that assesses over 370 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 2020 encouraged 141 global companies to complete a comprehensive survey on their workforce (both direct operations and supply chains), including freedom of association, human rights due diligence, diversity, and pay ratios.

XUAR Engagement Group

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

FUTURE PRIORITIES

In the section below, we outline eight future priorities of the stewardship team. This is not an exhaustive list of all of the planned engagement activities to be undertaken in the interests of our members (and their employers as scheme funders), but it outlines significant developments for the Board's work on stewardship.

FUTURE PRIORITIES

Developing a Global Net Zero Investment Framework

The Board will continue to co-chair the process that has developed the Net Zero Investment Framework for European investors, with the intention to evolve it into an international framework that can be recognised by the United Nations Race to Zero for pension funds setting net-zero commitments. This will also involve developing approaches for other asset classes such as investing in private companies and infrastructure. This collaborative approach, aimed at the wider financial system, reflects the systemic nature of the problem and solutions required.

Developing and supporting a partnership between companies and asset owners for a reformed mining sector by 2030

As set out on page 21, we will work to develop a 2030 vision for a reformed mining sector to address systemic challenges that continue to undermine the sector. We will convene a meeting of global investors to develop the vision with input from companies and communities. This vision has the potential to address longstanding and difficult issues within the sector, which is a critical part of the future economy.

Establishing an independent Global Institute on Tailings Dams

Working in partnership with the United Nations and the Council on Ethics of the Swedish National Pension Funds, we plan to establish a self-financing global institute to manage the implementation of the new Global Industry Standards on Tailings Management. This will be responsible for independently certifying that companies are meeting the standard in their individual tailings dams, as well as evolving the standard as best practice advances. We will also assess the feasibility of a 24/7 independent monitoring station that can track, in real time, changes in tailings dams through satellites and technologies on the ground.

Developing a policy on Big Tech. The Board is working with the EIAG and other Church of England investing bodies to develop an ethical investment policy on Big Tech that will inform and lead to further engagement with this important industry.

Launch a New Global Standard on Corporate Climate Lobbying

Together with our partners in Sweden's AP7 pension fund and France's BNP Paribas Asset Management, we will publish a global industry standard on corporate climate lobbying that not only identifies good practice on how companies should govern the lobbying activities undertaken by industry associations, but also how they can lobby positively in support of the low-carbon transition.

Continued development of the strategic asset allocation and risk framework

to ensure return objectives are met without taking excessive investment risk. The strategy will see a planned reduction in public market equity in favour of private market investments, such as infrastructure, which offer long-term, often inflation-matching, stable cash flows. Getting the strategy right will ensure the liabilities of the Board's pension schemes are met in a way that is consistent with our approach to ethics and stewardship.

Evolving the work of the Transition Pathway Initiative (TPI) to further support the climate transition

As co-chairs and founders of the TPI, the Board will lead a process to: expand the coverage of its assessments from 400 to 800 companies, assess sovereign and corporate bonds, and support the wider finance sector in playing a proactive role to support the transition. Many institutions are using the TPI to inform engagement and decision-making. Increasingly, TPI is being viewed by investors as the key independent investor assessment of the transition, and we will be significantly strengthening the initiative so it can play an even greater global role.

Developing a global framework to drive sector and value-chain engagement

When a company sets a net-zero target, for many this will often be dependent not only on actions they can take but also actions of their customers through their value chains or across their industry sector. For example, for Shell to achieve its net-zero target requires action by those it sells energy to, such as in the aviation, shipping, freight and automotive sectors. Through Climate Action 100+, the Board will lead a programme of work together with the Council on Ethics of the Swedish National Pension Funds and CalPERS (the largest US pension fund) to develop a framework to support companies making commitments and working through their value chains to implement them. This will include developing an accountability framework through the TPI that can track all the commitments from one company to the next. Once we have such a framework, investors will be able to play an active role in pushing more robustly for meaningful net-zero commitments and in releasing transition finance that can accelerate the transition.

Expand asset class coverage for managing ESG risk

We will continue the development of the Board's ESG analysis and manager monitoring framework to ensure asset classes with limited ESG coverage are integrated with our manager selection and monitoring processes. Implementing ESG risk measures into our reporting enables a deeper level of scrutiny across the Board's investment portfolio and prospective fund managers.

APPENDICES

As a pension fund, there are an increasing number of regulatory and best practice expectations for reporting on our approach to responsible investment, incorporating Environmental, Social, Governance (ESG) and climate change criteria into how we invest, and how we undertake active stewardship of our assets through voting, screening and engagement. This report seeks to apply best practice in stewardship reporting. These appendices make or highlight some specific disclosures, including a statement under the Task Force on Climate-related Financial Disclosures (TCFD) framework, and disclosures made with reference to the UK Stewardship Code 2020.

In preparing this report, we have also considered the Pensions and Lifetime Savings Association's disclosure guidelines, the International Corporate Governance Network Global Stewardship Principles, and the World Bank document *Sustainable Investment: Best Practice Disclosure Checklist for Pension Funds* (2020). We will continue to evolve our reporting and are open to feedback on how we present our approach.

APPENDIX 1: TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

TCFD CONSIDERATIONS FOR ASSET OWNERS	THE CHURCH OF ENGLAND PENSIONS BOARD APPROACH
Governance Who has oversight of climate-change-related risks and disclosures (board/management)? Is this documented?	<p>The Board of Trustees has overall responsibility for responsible investment. The CEO, Chief Investment Officer (CIO), and Chief Responsible Investment Officer (CRIO) work on responsible investment issues, advising the Board and its Investment Committee with standing agenda items at meetings, and regularly reviewing the Board's approach and implementation of relevant strategies. The Ethical Investment Advisory Group (EIAG) provides ethical investment advice to the Board and Investment Committee. External advisors are consulted and responsible investment commitments are regularly monitored by expert in-house staff. Climate change is recognised in our Schemes' Statement of Investment Principles and Beliefs as "a major financial, social, and ethical risk" for trustees and executives to consider, and is the topic of a dedicated Ethical Investment Policy. Our Climate Change Policy is available here: CofE.io/EIAGPolicies</p>
Strategy Have you considered climate-change-related risks and opportunities for investment strategy, and different climate-change scenarios?	<p>The Church of England Pensions Board has undertaken extensive work to understand climate-related risks and opportunities. The Board is committed to align its portfolio with the Paris Agreement objective of a "well below 2°C" global outcome, and in January 2020 made a commitment to be net zero by 2050 (through membership of the Net-Zero Asset Owner Alliance). Climate change risks and opportunities are embedded within the investment strategy and decision-making processes. The Board undertakes regular climate-change scenario analysis to better understand low-carbon transition risks and physical risks posed by climate change across different potential scenarios and time periods. The Board recognised the need for the wider investment community to have a common framework to deliver on net-zero commitments and therefore set up and co-chairs the development of a Net Zero Investment Framework under the Institutional Investors Group on Climate Change (IIGCC). This framework, which was launched for consultation in 2020, is industry-leading and does not just consider different scenarios, but different ways to address these scenarios in strategic asset allocation, investor stewardship, and across asset classes. In 2020, the Investment Committee undertook a detailed exercise to consider scenario analysis and stress testing for our investments. We used a range of tools including Mercer (<i>Investing in a time of Climate Change – The Sequel</i>), Vivid Economics (part of the IIGCC's PAII), the TPI, and PACTA. The insights of these stress tests were then considered by the Investment Committee and the Board.</p>
Risk Management Have you established risk assessment and reduction processes, including engagement with managers and low-carbon allocations?	<p>Monitoring is focused on climate-change scenario analysis, monitoring of emissions risks through carbon footprinting and carbon intensity metrics, and monitoring exposure to carbon assets (e.g. fossil fuel reserves). The climate-related 'management quality' and 'carbon performance' assessments of companies are also tracked, using the TPI data, to inform engagement, voting and interactions with investment managers. This has led to the development of, and investments in, the FTSE TPI Climate Transition Index that weights companies based on Paris Alignment criteria and the amendment of one investment mandate to address above-benchmark weighted average carbon intensity. Finally, stewardship activities aim to bring about decarbonisation and improve climate change disclosure, directly and through collaboration with other investors, e.g. through our involvement with the TPI, CA100+ and the IIGCC.</p>

APPENDIX 1: TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

TCFD CONSIDERATIONS FOR ASSET OWNERS		THE CHURCH OF ENGLAND PENSIONS BOARD APPROACH
Metrics & Targets	Have you assessed your portfolio carbon emissions (e.g. carbon foot-printing) and considered targets for improvements?	<p>The Church of England Pensions Board monitors the carbon footprint of its investments over time, to reduce portfolio emissions, and undertakes regular scenario analysis relative to appropriate benchmarks and climate models. We monitor TPI assessments and have developed specific targets for the 15 sectors covered by TPI. These targets inform our proxy voting, engagement, and investment decision-making. The Board has also committed to be 'Net Zero by 2050, or earlier', and has partnered with other investors to develop appropriate frameworks and methodologies. As a result of this work, the Board has adopted the following targets: our public equity holdings will have carbon performance in line with Paris/2°C by 2023, and our public equity portfolio will demonstrate a year-on-year improvement of at least 7% relative weighted average carbon intensity (CO₂e/\$m revenue, beginning 2019), or equivalent. Targets for other asset classes are under development, and will be informed by the IIGCC's Net Zero Investment Framework. The weighted average carbon intensity of the Board's equity portfolio as of 31 December 2020 was 91.6 tCO₂e/\$m Sales (using MSCI's portfolio snapshot tool). This is 42.3% under the relevant benchmark.</p> <p>General Synod has committed the Church of England to assess the target of Net Zero by 2030 for operational emissions, more details of which are available at CofE.io/ViewOnClimateChange</p>

APPENDIX 2: UK STEWARDSHIP CODE 2020

PRINCIPLE NO.	PRINCIPLE WORDING	PENSIONS BOARD REPORTING
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.	<p>The Board's purpose, beliefs, culture and strategy are interconnected and outlined in a number of documents, including Our Approach (page 5). The Board's duty is to provide retirement housing and pensions, set by the Church of England, for our 41,000 beneficiaries who have served or worked for the Church. The Board, as a Church of England institution, seeks to invest in a way that is consistent with the Church's ethics and ethos, guided by our EIAG.</p> <p>The way we invest is outlined in the Fund Profile (page 4), and this Stewardship Report document should be read as an example of how the Board's purpose and investment beliefs have guided our investment strategy (e.g. our development of and allocation to the FTSE TPI Climate Transition Index) and the stewardship of investments.</p> <p>The third-party assessments of our climate strategy outlined on pages 16, 36 and 37, and the assessment provided by the Principles for Responsible Investment (PRI – page 36), give us confidence that we have been effective in serving the best interests of our beneficiaries. Awards received from the UN-backed Principles for Responsible Investment on Stewardship and for ESG Integration are additional external acknowledgment of the approach the Board has taken.</p> <p>Further details are available here:</p> <ul style="list-style-type: none">• The Board's Investment Principles and Beliefs: CofE.io/InvestmentPrinciples• Our Annual Review: CofE.io/PBReview2020• Our Stewardship Implementation Framework, which details how we oversee and set stewardship expectations of asset managers: CofE.io/PBStewardshipImplementation <p>The Board's Investment Principles and Beliefs were reviewed by the Investment Committee in 2019 and the Stewardship Framework was approved by the Investment Committee in 2019.</p>

PRINCIPLE NO.	PRINCIPLE WORDING	PENSIONS BOARD REPORTING
Principle 2	Signatories' governance, resources and incentives support stewardship.	<p>Consistent with our investment beliefs, the Board integrates ethical and responsible investment. The CIO and CRIO co-lead the investment team of 10.5 full-time equivalent (FTE) staff, under one budget, and report to the CEO.</p> <p>The Board and its Investment Committee are supported in their work on stewardship by the Executive, our investment consultants and advice from the Church of England's EIAG. The Board's Investment Committee regularly conducts 'deep dive' sessions that incorporate training, and stewardship/ethics and engagement is a standing agenda item.</p> <p>Further detail on the processes that enable the Board to integrate stewardship are provided in the Board's Stewardship Implementation Framework (approved by the Investment Committee in 2019 and available at CofE.io/PBStewardshipImplementation), and the Board's Annual Review (CofE.io/PBReview2020) includes reporting against our objectives to 'Demonstrate leadership in ethical and responsible investment' and 'Model good governance and stewardship'. Disclosures on the Board's diversity, pay, and so on, are made in our Annual Report, available at CofE.io/PBFinancialStatements</p> <p>The Board does not offer variable incentive payments.</p> <p>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 39). On stewardship, members of the team have extensive experience in leadership and responsible investment roles, relevant graduate and postgraduate qualifications, and undertake continuing professional development (e.g. Investment Management Certificate qualifications).</p> <p>Together with the other Church of England National Investing Bodies, we recently re-constituted the EIAG after a thorough review. The changes made in 2018 include revised Terms of Reference, increased numbers of independent members, and a new Appointments Committee with a remit to oversee appointments, diversity and good governance.</p> <p>Alongside our investment consultants Mercer, the Board uses third-party providers MSCI (ESG data), ISS (proxy voting implementation) and Refinitiv EIKON (investment and ESG data), and draws on the resources and expertise of a number of organisations that we work with, lead, or are members of, including the PRI, the Transition Pathway Initiative (TPI), the IIGCC, the Net-Zero Asset Owner Alliance and the other groups and coalitions outlined in our section on 2020 Engagement and Collaborations (page 26).</p>
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	<p>The Board operates a Code of Conduct for trustees and those co-opted to serve on committees. The Code that 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 follow the Seven Principles of Public Life set out by the Committee on Standards in Public Life. The Code describes different kinds of conflict: direct and indirect; pecuniary and non-pecuniary.</p> <p>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.</p> <p>The EIAG also operates a Code of Conduct that includes provisions for conflicts of interest. In 2020, no conflicts of interest were identified in relation to the Board's stewardship activities. Potential conflicts or areas of risk might arise e.g. if a committee member were to have a relevant relationship with an investment manager being considered for appointment, a company subject to engagement, or an advisory or consultancy tendering for work. These would be addressed following the Board's Code of Conduct, through registering and declaring actual or potential conflicts of interest, and withdrawal from meetings where appropriate.</p> <p>One area of broader interest is potential misalignment between our approach to stewardship and the stewardship policies of our asset managers. In order to address this, we incorporate stewardship in our selection and appointment process, seek segregated mandates where possible, conduct all proxy voting in-house and have incorporated stewardship into our regular asset manager monitoring and assessment. Further detail is available in our Stewardship Implementation Framework: CofE.io/PBStewardshipImplementation</p>

APPENDIX 2: UK STEWARDSHIP CODE 2020 (CONTINUED)

PRINCIPLE NO.	PRINCIPLE WORDING	PENSIONS BOARD REPORTING
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	<p>The Board's two 'Impact Engagement' stewardship priorities address market-wide and systemic risks. These priority areas were identified, approved and monitored by the Investment Committee, with support from the EIAG. The Board's approach to stewardship and investment decision-making in light of these risks, and our extensive collaborations are detailed above in sections:</p> <p>Climate Change page 8 and Extractive Industries page 17.</p> <p>The systemic risk of Climate Change is articulated in our Statement of Investment Principles and Beliefs, and our Policy on Environment and Climate Change (available at CofE.io/ViewOnClimateChange), and the reporting on pages 8 and 16 and 35 demonstrate how the development of TPI as a free open-source tool, the development of and our allocation to the FTSE TPI Climate Transition Index, co-chairing the IIGCC's Net Zero Investment Framework and our collaborative engagement activities, enable other investors (and the wider social and economic ecosystem) to manage climate change risks and opportunities.</p> <p>We view Tailings Storage Facilities as a systemic risk due to their prevalence in the mining industry, the severe impacts if they fail, and the mining industry's prevalence in supply chains globally. This sector is particularly important to support the low-carbon transition and minerals needed. Waste management is therefore critical and, at present, a major risk. Our work together with the UN and industry to develop and promote the Global Industry Standard on Tailings Management (see pages 18-19) supports improved resilience in the mining industry and supply chains, and the Global Tailings Portal provides investors (and others, as it is in the public domain) with a new tool to understand and manage risks from mine waste.</p> <p>The Board's Investment Committee has considered Covid-19-related risks throughout the year, and undertook Covid-19-specific analysis and discussions/reviews with managers. The Board modified its proxy voting expectations in light of the global pandemic, endorsed a public statement coordinated by ICCR on responses to Covid-19, wrote to 55 of our largest holdings encouraging enhanced workforce disclosure, and joined Covid-19-related collaborative engagement efforts through the Principles for Responsible Investment (including CCLA's engagement with FTSE100 companies regarding workplace mental health). We continue to monitor and engage on this ongoing risk.</p>
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	<p>The Board's suite of ethical investment policies and processes are reviewed by the in-house team, the Investment Committee and the Board, and are subject to internal audit processes. In 2020 the Board conducted audits on our climate-change approach and on ethical compliance, receiving the highest levels of assurance: "substantial" and "full". Some minor process improvements were identified and implemented, including policy document formatting.</p> <p>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. In 2020 the EIAG met three times and received a report from the Board on its stewardship activities on each occasion. The EIAG reviewed its Advice on Alcohol, Gambling, Human Rights and Climate Change, which have led to three policy changes (see CofE.io/EIAGPolicies) and a new formal policy on Human Rights being recommended to Trustees for approval. The Board's Stewardship Report is approved by the CEO, Chair of the Investment Committee, and Chair of the Board.</p>

PRINCIPLE NO.	PRINCIPLE WORDING	PENSIONS BOARD REPORTING
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	<p>The Board has 41,000 members across three schemes. See the Fund Profile section (page 4) for a description of the Board's investment approach and a breakdown of our assets under management, and the Board's Annual Review (www.churchofengland.org/cepb) for a description of the Board's three schemes.</p> <p>Following our Statement of Investment Principles and Beliefs (CofE.io/InvestmentPrinciples), the Trustee recognises that the beneficiaries and the sponsors of the Scheme are part of the Church of England and that the Scheme's investments should reflect that as far as possible without compromising its objectives. The Board seeks ethical investment advice from the EIAG that is informed by Anglican and Christian theology, and the Board evaluates and acts on this Advice in the adoption of ethical investment policies.</p> <p>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 report is intended to be the first annual stand-alone Stewardship Report, where previously reporting was contained within the Annual Report.</p> <ul style="list-style-type: none">• 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 online (this document), and will be publishing 'Implementation Statements' for each of our schemes with their annual reports.• We have a dedicated section on our website about our major engagements.• We have a communications capacity that targets specific media that our beneficiaries read.• We deliver reports to the General Synod (equivalent of a parliament) of the Church of England as well as reports to Bishops on progress.• We have ensured that the TPI tool remains free and publicly available so that any trustee or beneficiary could access its analysis and hold us to account on engagement progress on climate change.• We publish all of our proxy voting records, including the rationale for votes where we do not support management.
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	<p>The following sections detail our integration of stewardship and investment, from the co-leadership of the Investment team (CIO and CRIO) to the development of a passive index to meet our investment and climate-change-related risk needs.</p> <p>See the text provided under Principle 2 above, and the following sections for more detail:</p> <p>Our Approach page 5</p> <p>Climate Change page 8</p> <p>Extractive Industries page 17</p> <p>Screening and Voting page 22</p> <p>At the policy level, the Board's Stewardship Implementation Framework (CofE.io/PBStewardshipImplementation) provides further detail on the way we integrate stewardship and investment activities, including through manager appointment, engagement and monitoring, and termination. In asset classes with limited ESG data, the Board's stewardship activity focuses on our relationship with and assessment of the asset manager.</p>

APPENDIX 2: UK STEWARDSHIP CODE 2020 CONTINUED

PRINCIPLE NO.	PRINCIPLE WORDING	PENSIONS BOARD REPORTING
Principle 8	Signatories monitor and hold to account managers and/or service providers.	<p>Stewardship is a standing agenda item for manager update meetings, during which typically there is discussion of both the managers' stewardship approach and particular holdings. Stewardship considerations and metrics (including climate-change-related metrics) are included in the quarterly manager monitoring report considered by the Investment Committee. More detail is provided in the Board's Stewardship Implementation Framework, which notes on escalation that "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". The Board encourages its asset managers to join our collaborative engagement efforts. For example, on behalf of Climate Action 100+ (CA100+), we lead on engagement with Royal Dutch Shell alongside one of our asset managers. The Board undertakes and monitors proxy voting in-house.</p> <p>In 2020, one asset manager was identified as managing a portfolio with a weighted average carbon intensity (WACI) significantly above their benchmark. This was identified during manager monitoring, and addressed. This portfolio's WACI is now 20% under benchmark.</p>
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	<p>The way the Board prioritises, monitors and evaluates our corporate engagement and the outcomes we have seen, including case studies, are detailed in the following sections:</p> <p>Our Approach – page 5</p> <p>Climate Change – page 8</p> <p>Extractive Industries – page 17</p> <p>Proxy voting, Screening and Engagement – page 22 to 26</p> <p>In 2020 we engaged with 632 companies, 262 of which were portfolio companies. Non-portfolio companies were engaged with under our priority engagement strategies, on the basis that systemic change is needed, companies are in our 'investable universe', and/or are in the supply chains of companies we hold investments in. For more explanation, see the Climate Change and Extractive Industries sections above. We engaged with 64% of our top 100 holdings. We engaged with 151 companies on more than one occasion during the year. Our engagement with issuers often involves setting expectations (e.g. through the TPI, IIGCC's Net Zero Investment Framework, corporate climate lobbying, in relation to disclosure and standards for tailings storage facilities, and workforce-related disclosures). Our Stewardship Implementation Framework (CofE.io/PBStewardshipImplementation) outlines the approach we take across asset classes, and in 2020 we engaged with all of our asset managers.</p>
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	<p>The Board's collaborations (and roles/contributions) are highlighted in the following section:</p> <p>2020 Engagements and Collaborations – page 26</p> <p>As stated in Our Approach (page 5), and demonstrated in the Climate Change (page 8) and Extractive Industries (page 17) sections, we work in collaboration with other investors (e.g. we co-founded and chair the TPI, which is integral to our climate strategy and supported by over 95 investors with more than US\$23.6trn AUM). Our work on tailings (see page 18) involved partnerships with over 110 investors, the industry association representing the largest publicly listed mining companies and the UN Environment Programme. We also have regular contact, in collaboration with other investors, with community representatives from areas affected by the Brumadinho and Mariana tailings tragedies. The outcomes of our collaborative engagement are presented throughout the report.</p>

PRINCIPLE NO.	PRINCIPLE WORDING	PENSIONS BOARD REPORTING
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	<p>The Board's Stewardship Implementation Framework and Business and Engagement Policy (www.churchofengland.org/eiag/policies) detail our escalation strategies for stewardship. We have a special procedure for intensive engagement when severe ethical or responsible investment concerns arise. Engagement will normally involve multiple meetings with the company. Specific, measurable, achievable, reasonable and timely progress by the company is sought and monitored. Our Business and Engagement Policy states our preference for engagement, but escalation can lead to disinvestment. By way of some examples of escalation tactics, in 2020 these have included collaboration (on climate-change engagements), public statements (listing companies that did not respond to the Investor Mining and Tailings Safety Initiative's disclosure request on our website), preparing to file a shareholder resolution (which prompted a company to change their policy), voting against directors (we voted against management at 17.1% of all resolutions at company meetings), reducing exposure (through the development of the FTSE TPI Climate Transition Index) and disinvestment (where we assess engagement has failed or that a company activity poses no possibility of reform). We have also considered legal recourse in different markets where shareholder rights to file a resolution were not allowed by a company. Whilst we felt we had a strong case, we decided against this course of action in 2020 but began a process to potentially do this in 2021 if the companies were not more responsive. Examples of specific escalation to achieve stewardship outcomes are provided in the Stewardship Report in relation to climate lobbying (page 15), delivering on the General Synod Commitment (page 16), Gender Diversity (page 24), and the case studies on page 25. In asset classes beyond public equity, stewardship escalation comprises monitoring and assessing our managers and engaging with them in the pursuit of our concerns. This is also raised with our Investment Committee. For our property portfolio, in 2020 we undertook extensive dialogue with our manager in order to review climate performance and escalated within the fund. We have now begun further work on improving methodologies to track climate objectives within the asset class.</p>
Principle 12	Signatories actively exercise their rights and responsibilities.	<p>The Board conducts portfolio-wide ESG, thematic and controversy analysis. This helps us to prioritise engagement and feeds into our manager monitoring (as outlined in the Stewardship Implementation Framework: CofE.io/PBStewardshipImplementation). The Board discharges its responsibility to vote on its shares, and casts 99% of the votes on ballot items on which we could have issued instructions, thereby implementing the Voting Policy template disclosed in the Stewardship Report on page 38. Variance against this Church Investors Group (CIG) Voting Policy template is detailed in the chart on page 39. We have invested in an in-house governance and voting capability that is exercised by our specialist dedicated manager. 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. The Board does not lend stock.</p> <p>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.</p>

APPENDIX 3: PRINCIPLES FOR RESPONSIBLE INVESTMENT

The Board reports on its responsible investment activities, policies and procedures on an annual basis under the PRI reporting tool. This generates an annual Transparency Report that is made public, and an assessment, which is included below (2019). In every category we are above the median score of PRI members.

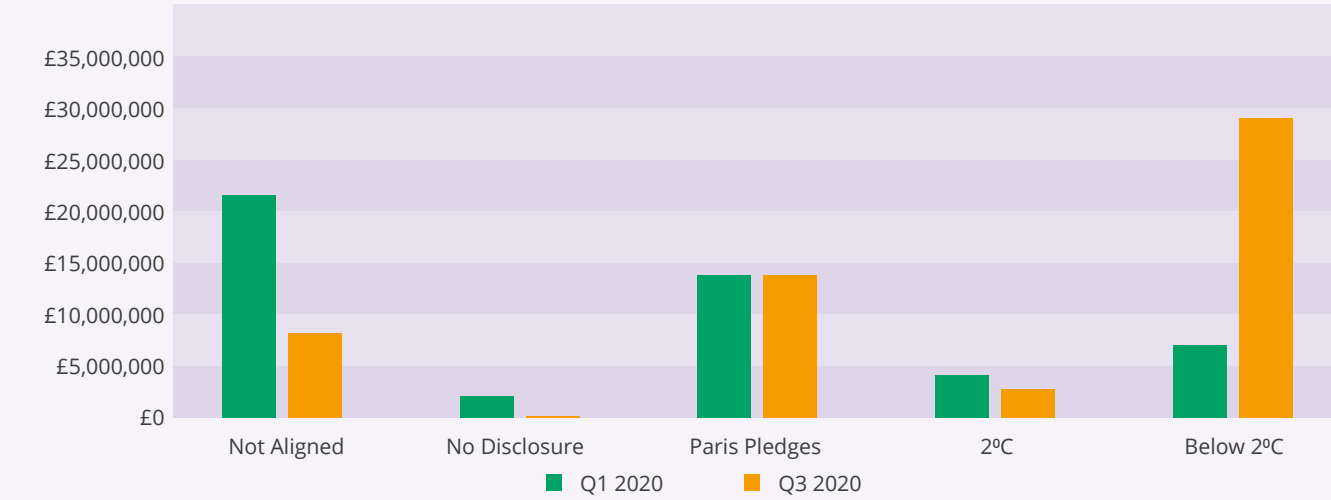
SUMMARY SCORECARD

AUM	MODULE NAME	OUR SCORE
	01. Strategy & Governance	A+
Indirect – Manager Selection, Appointments, and Monitoring		
>50%	02. Listed Equity	A+
10-50%	03. Fixed Income – SSA	A
<10%	05. Fixed Income – Corporate Non-Financial	A+
<10%	07. Private Equity	A+
<10%	08. Property	A+
10-50%	09. Infrastructure	A+
Direct & Active Ownership Modules		
N/A	11. Listed Equity – Active Ownership	A

STRESS TESTING

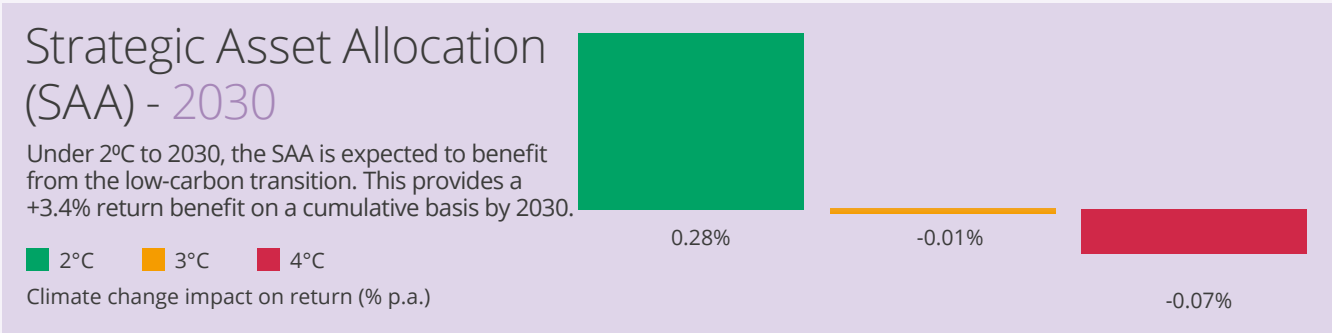
The charts below show some headline stress-testing outcomes for the Board’s portfolio, and the positive impact our adoption of the FTSE TPI Climate Transition Index has had on our portfolio’s climate characteristics.

SIZE OF HOLDINGS (ASSESSED COMPANIES) BY TPI PERFORMANCE CATEGORY, Q1 AND Q3



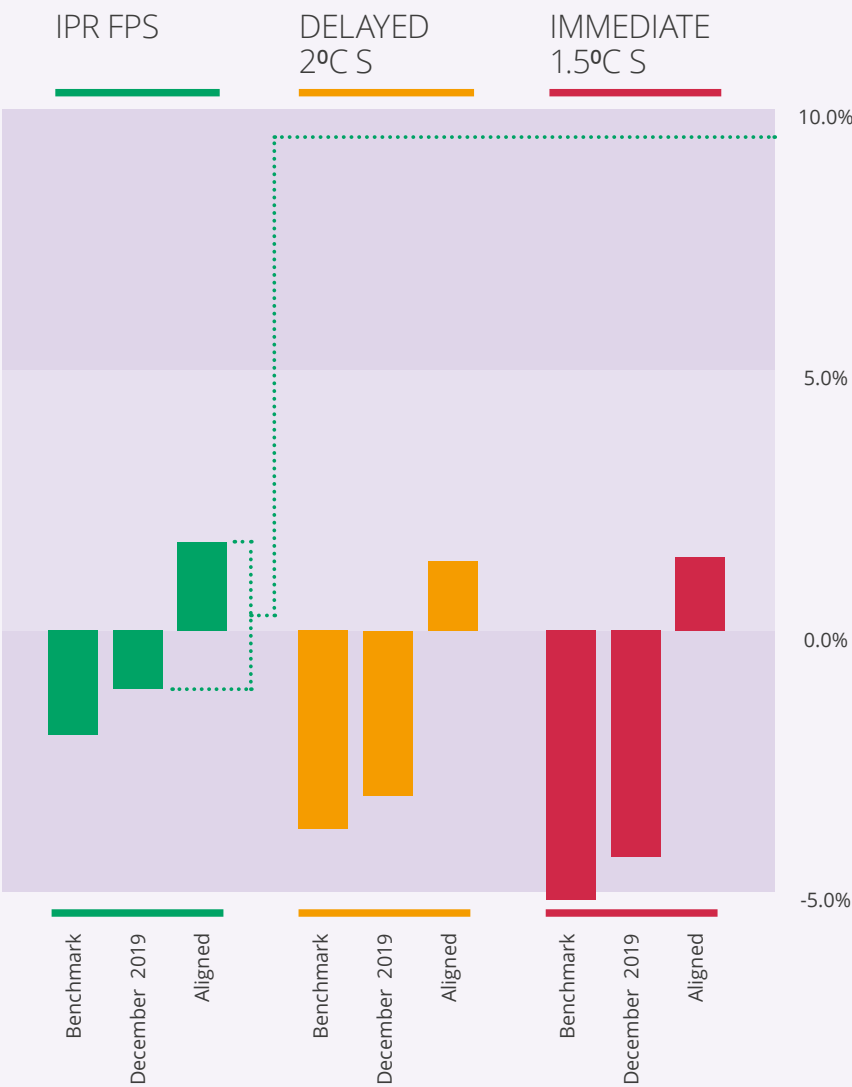
This chart shows the change in our investments in companies that fall under the TPI’s Carbon Performance assessment. As shown, there has been a significant decrease in our investments in companies that are ‘Not Aligned’ or do not disclose, and an increase in our investment in companies that are aligned to the ‘Below 2°C’ sector pathway. Investments in ‘Not Aligned’ and ‘No Disclosure’ companies will reduce to zero over the course of Q1 2021, following the Investment Committee decision in 2020 to apply the Index’s carbon performance methodology to our actively held investments.

MERCER ANALYSIS ON CLIMATE CHANGE (PUBLIC EQUITY)



This graphic shows that our portfolio is expected to realise a cumulative benefit of 3.4% due to climate alignment in the ‘Below 2°C’ scenario by 2030. The Mercer full report provides the proper context and caveats for this stress test.

CHANGE IN VALUATION (RELATIVE TO CURRENT POLICY BASELINE)



This graphic from Vivid Economics shows how our ‘Aligned’ portfolio (which incorporates the FTSE TPI Climate Transition Index) performs better than our ‘Current/December 2019’ portfolio under all three stress-test scenarios: the Inevitable Policy Response (IPR), the Delayed 2°C Scenario and the Immediate 1.5°C Scenario.

APPENDIX 4: 2020 PROXY VOTING TEMPLATE

With the Church Investors Group (CIG), the Pensions Board jointly adopts a voting template, which is annually reviewed and approved by our trustees (most recently in February 2020).

THEME (POLICY)	CRITERIA	VOTE
Executive Remuneration Executive Remuneration Policy	Adoption of local best practices	Against remuneration report/policy
	Equitable executive quantum	Against remuneration of committee chair (when concerns persist for more than two years) and remuneration of whole committee (when pay scheme breaches more than three principles of our executive remuneration policy)
	Integration of ESG metrics	
	Shareholders' alignment	
	Alignment between executive and wider workforce's pay	
Governance Statement of Ethical Investment Policy	Board composition and independence	Against Re-election of non-independent directors when board independence is not in line with local good practice and there is evidence of poor meeting attendance
Diversity Statement of Ethical Investment Policy	Board and senior management diversity	Against chair of nomination committee where the board's female balance is below 33% (FTSE 350)
		Against all members of nomination committee when the board's female balance is below 25% (FTSE 100)
		Against chair of nomination committee where there is no female board representation (global)
		Abstain reports and account where there is no disclosure on gender diversity at executive committee level
Modern Slavery Statement of Ethical Investment Policy	Modern slavery	Abstain 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 FTSE 100
Audit Statement of Ethical Investment Policy	Disclosure of non-audit fees	Against chair of audit committee where no disclosure, excessive non-audit fees or auditor tenure exceeds 10 years (EU) or 20 years (US)
	External auditors' tenure	
Climate Change Climate Change Policy	TPI Framework and performance pathway TPI management Lobbying disclosure	Against re-election of the board chairman where the company is not at least Level 2 (i.e. companies assessed at level 0 and 1) of the TPI framework
		Against re-election of the board chairman where the company is included in the CA100+ programme, in the electrical utility (power generation) sector, is covered by the TPI and does not have a TPI performance pathway that is either aligned with or below the Paris Agreement's Nationally Determined Contributions
		Against the reappointment of auditors where the company faces climate-change-associated risk but the auditors' report is silent on the issue
		Abstain report and account applicable for CA100+ companies where there is a lack of disclosure of lobbying activities/trade association membership
Responsible Tax	Tax transparency	Against board chair where the company (FTSE 350 and Russell top 50) shows no evidence of corporate tax management
Employee Pay Executive Remuneration Policy	Living Wage	Abstain remuneration report where companies are FTSE 100 constituent in either the financial services, communications or pharmaceuticals sector, and where the company is not a Living Wage-accredited employer or has not met engagement standards
Tailings	Tailings corporate disclosure	Against: re-election of chair of the board where companies have not responded to the disclosure request made by the Investor Mining and Tailings Safety Initiative

ACTUAL VOTES AND CIG RECOMMENDATIONS – UK AND GLOBAL REGION (39,049)

This chart shows that we follow CIG voting template recommendations, withhold our support from or vote against management on a significant number or resolutions, and exercise case-by-case judgement on approximately 5% of resolutions.

	For	Against/Withheld	Abstain	Refer	Other	Total
CIG	30,945	5,232	821	2,012	39	39,049
Our votes	32,206	5,824	978	0	41	39,049

AWARDS

ESG assessment tool of the year awarded to the Transition Pathway Initiative; Stewardship Project of the Year awarded to the Investor Mining and Tailings Safety Initiative; and ESG Integration of the Year awarded to the FTSE TPI Climate Transition Index.



TEAM

NAME	JOB TITLE
Michael Pratten	Chief Investment Officer and Assistant Secretary
Tammy Woods	Team Administrator
Dan Taylor	Investment Officer
Jason Brannigan	Investment Analyst
Julie Dunne	Investment Operations Manager
Ryan Baker	Investment Operations Assistant
Adam Matthews	Chief Responsible Investment Officer and Assistant Secretary
Dr Stephen Barrie	Deputy Chief Responsible Investment Officer
Clare Richards	Senior Engagement Manager
Raj Singh	Senior Engagement Manager
Sheila Stefani	Senior Voting and Screening Specialist

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

Our Trustees cover a diverse range of backgrounds, experience and expertise; a balance that directly supports the successful delivery of all our activities.

The members of the Board are either 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.

The Board normally meets five times a year, supported also by committees covering housing, pensions, investments and audit.

In 2021, with the permission of the General Synod, we plan to simplify the Board's governance structure, driving better value for all we serve, whilst retaining strong oversight of our pension schemes and charitable services.

“ We are extremely grateful to all Trustees and co-opted members of our committees who give so generously of their time and expertise to the Board. In this first annual stewardship report, I wish to also record thanks to Pierre Jameson, who retired in February 2020 after 11 years as CIO, and to Dan Taylor who stepped into the role on an interim basis, ahead of our new CIO's arrival. ”

Clive Mather

Appointed Members:

Jeremy Clack FIA (to 31 December 2020)
Canon Nicolette Fisher
Tony King
Clive Mather (Chair)
Nikesh Patel FIA
The Revd Caroline Tittley
Ian Wilson (from 1 July 2020)

Elected by the House of Laity:

Roger Boulton
Canon Emma Osborne
Bill Seddon

Member Nominated Members:

The Revd Fr Paul Benfield
The Revd Nigel Bourne
The Revd Peter Ould
Susan Pope
Maggie Rodger
The Ven David Stanton
Michaela Southworth
The Rt Revd Alan Wilson

Employer Nominated Members:

Richard Hubbard
Canon Sandra Newton



THE CHURCH
OF ENGLAND

Contact details

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