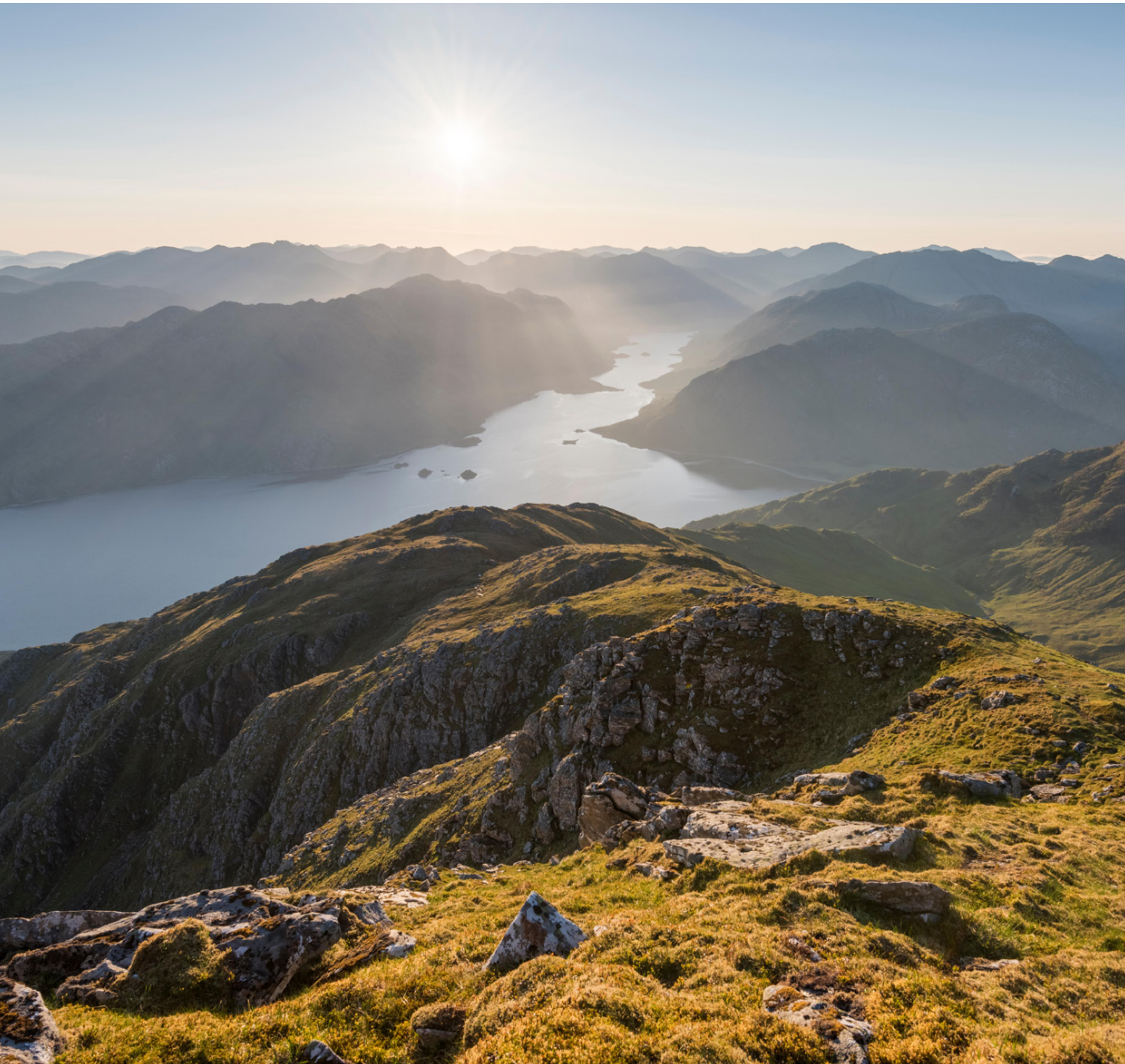
THE CHURCH OF ENGLAND
PENSIONS BOARD

Climate Action Plan

For the Pensions Board's Investments



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About the Church of England Pensions Board

The Church of England Pensions Board provides retirement housing and pensions, set by the Church of England, for those who serve or work for the Church. We assist over 42,000 people across almost 700 employers with their pensions, carefully stewarding the funds under our care of around £3.2 billion.[1]

This Action Plan relates to our investments for the pension fund and not the retirement housing which are addressed through a separate strategy.

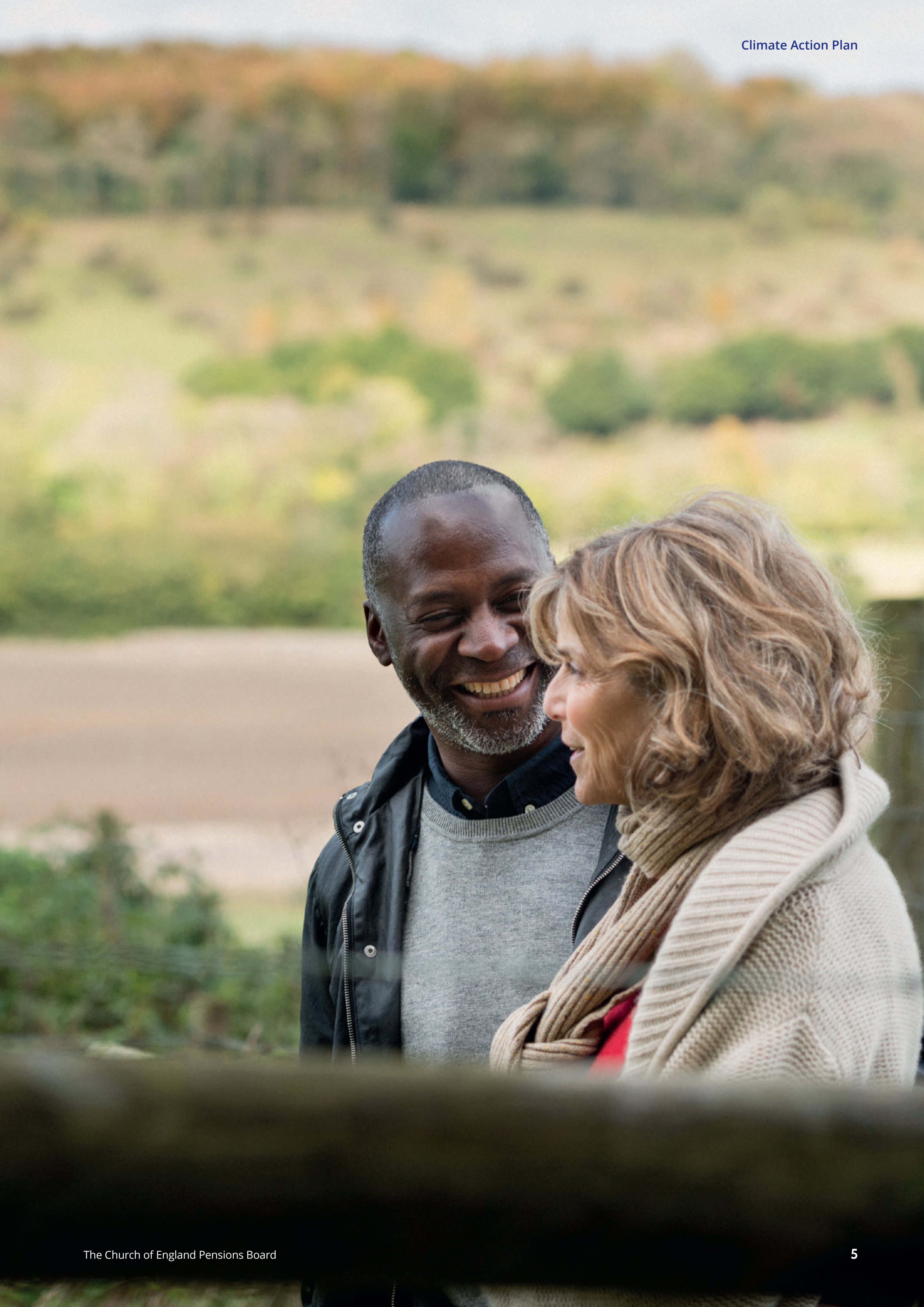
The Board is trustee of three pension schemes: the Church of England Funded Pensions Scheme, the Church Workers Pension Fund, and the Church Administrators Pension Fund. Around 700 different Church organisations participate in our schemes, including dioceses, parishes, Church charities and mission agencies.

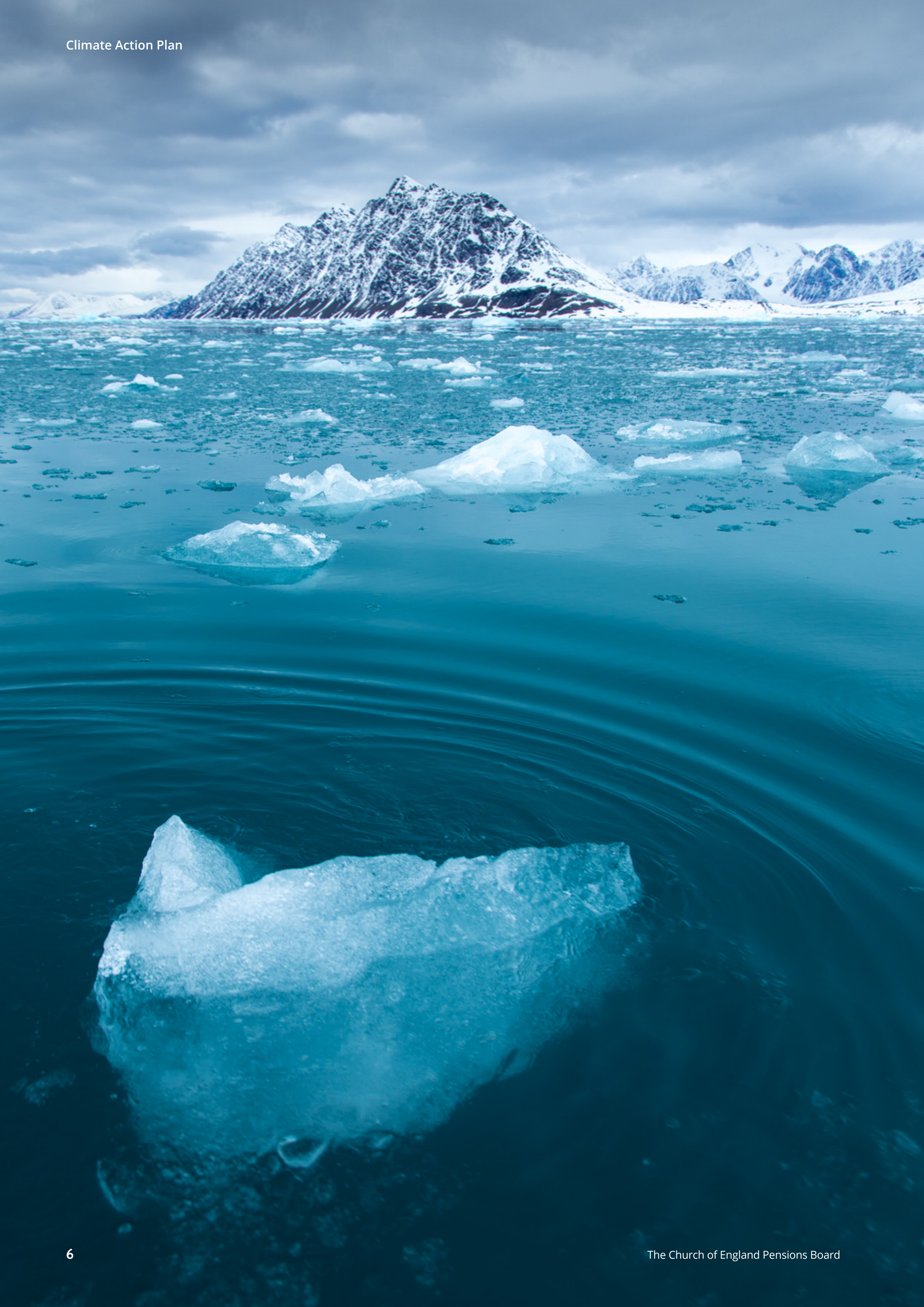
The Pensions Board is one of three national investing bodies of the Church of England. We receive advice from the Ethical Investment Advisory Group (EIAG) to support investment in a way that is Christian and Anglican.

About this plan

This plan communicates the Church of England Pension Board's strategy to reach net zero in our investment portfolio by 2050 or sooner. This commitment covers both our operations and our investment portfolio. To develop this report, we were informed by the Net Zero Investment Framework, the climate change advice from the EIAG, the Investor Climate Action Plans guidance and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We will report on our progress against this plan in our annual TCFD report. Additionally, our Climate Transition Action Plan will be updated when and if a material change is made to our strategy to reach net zero by 2050.

1. At 31 December 2022





Introduction

The Church of England Pensions Board has a long-standing commitment to act on climate on behalf of our beneficiaries.

Climate change is a systemic risk to the global economy, as well as the lives and livelihoods of our beneficiaries and the world into which they will retire. We also recognise that climate change impacts the poorest disproportionately, and through the Anglican Communion we are in touch with some of the most impacted communities suffering from climate extremes.

By working to reduce climate risk across our investment portfolio and in the global economy, the Pensions Board is ensuring a positive retirement outcome for our beneficiaries.

Accordingly, the overarching aims of our Climate Action Plan (CAP) are:

- To serve our beneficiaries by addressing climate risk and realising competitive returns to meet our pensions commitments across the short, medium and long term.
- To play a leadership role, in line with the expectations and ambitions of our beneficiaries, aimed at limiting global warming to no more than 1.5°C above pre-industrial levels.
- To reach net-zero in our investment portfolio by 2050.

These goals reflect the reality that we are investing in the context of a global economy in transition, which means transitioning our portfolio to net-zero emissions over time is a strategic response; and the evidence that limiting global warming to 1.5°C delivers better portfolio outcomes in terms of returns over the long term, than higher temperature outcomes do.

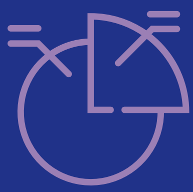
We take a systemic approach to climate change, so the key actions we focus on in this Climate Action Plan are: supporting a rapid transition away from fossil fuels, and ensuring a substantial increase in investment and financing in the transition and investment in climate solutions. As a pension fund, the levers we have available are:

- Public policy engagement,
- Corporate and industry engagement, and
- Capital allocation via our own investments.

The focus of our Climate Action Plan, summarised below, highlights the actions and activities we will take in order to achieve our overarching aims. Our Climate Action Plan is underpinned by five strategic pillars and 18 key actions. It aligns with the Net Zero Investment Framework (NZIF), a globally leading framework supporting investors to align their portfolios with net zero emissions.

Member engagement and communication is a key part of our strategy. We provide regular updates and briefings on our climate approach to members, and also receive feedback and discuss our approach with members at events and General Synod.

CLIMATE ACTION PLAN

STRATEGIC PILLARS	 **COMMITMENT TO ACT**	 **ROBUST STEWARDSHIP & ENGAGEMENT**	 **PUBLIC POLICY ENGAGEMENT**
ACTIONS	We will report annually on our CAP actions and membership requirements in our TCFD and Stewardship reports.	We will engage 100% of our public equity holdings through proxy voting. We will conduct priority engagement with demand-side companies on fossil fuel phase-out and 1.5C alignment. We will engage sectors dependent on transition minerals on transition plans and socially and environmentally responsible mining practice. We will escalate engagements and use voting, strategic divestment and excusion of equity and fixed income when companies fail to meet our engagements goals. We will seek lobbying and public policy disclosures aligned with the Global Standard on Responsible Climate Lobbying from companies.	We will continue to lead an initiative of investors to address the systemic risk posed by misaligned climate lobbying. We will conduct strategic engagement and dialogue with sovereign debt issuers on climate-related issues. We will advocate for a policy that supports a phase-out or moratorium on oil and gas with just pathways for developed and emerging markets. We will produce a public policy and industry associations disclosure for the Pensions Board.

UNDERSTANDING THE TRANSITION

We will support and/or lead the development of and reporting against net zero sector standards for key sectors in the transition to net zero emissions.

We will lead the Global Investor Commission on Mining 2030, which is focussed on transforming the mining sector.

We will lead the Emerging Markets Just Transition Investing Initiative, including building tools to support increased allocations to climate in emerging markets.

PORTFOLIO ALIGNMENT & TESTING

We will reduce the carbon intensity of our public equities portfolio by 7% year on year, and reach net zero by or before 2050.

We will report on our assets under management invested in transition and climate solutions activities annually, and develop an investment strategy aimed at increasing our exposure to climate solutions.

We will advocate for further development of climate change investor frameworks.

We will set emissions reduction targets for each asset class where methodologies are available.

We will conduct climate change scenario analysis at least every three years, and disclose the outcomes in the relevant TCFD report.

TAKING ACTION & MANAGER MONITORING

We will work to increase the proportion of our managers that are actively committed to net zero.

We will assess all managers on climate and ESG and engage individually and set expectations.

We will escalate with managers where their climate and ESG approach is materially misaligned.

We will seek support from our managers on strategic stewardship interventions in the wider market led by the Board such as TPI, Lobbying Standard, Global Investor Commission on Mining 2030.

Our approach to climate change

Climate change is a threat to the economy and to humanity

Climate change presents an urgent, systemic threat to the planet and its inhabitants. This means it poses a direct threat to our beneficiaries and the communities they live in. As an ethical investor, it is even more important for us to consider our role in responding to this global challenge and the impact our investments have upon the environment, and in particular the poorest communities.

In addition to the impact on our beneficiaries, their lives, communities and livelihoods, investors consider climate change a foreseeable and material risk to investments and the global economy. Our investments are exposed to the risks and opportunities presented by climate change adaptation and mitigation – managing this and seeking to reduce risks is an essential component our fiduciary duty.

TARGETING NET ZERO AND 1.5°C

The Paris Agreement was signed by over 190 countries (including the United Kingdom) in 2015. A key aim of the agreement is to 'Hold the increase in global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change.' (Article 2.1a.)

In 2017, the Intergovernmental Panel on Climate Change (IPCC), a body that is considered to be scientifically authoritative on the evidence base for climate change impacts, adaptation and mitigation, released a special report on the impacts of global warming of 1.5°C. It found that warming of 1.5°C has a substantial negative effect on people, communities and nature, but that 2°C of warming is far worse. For example, nearly 14% of the global population will be exposed to extreme heatwaves at least once every five years in a 1.5°C world, but 37% in a 2°C world. Similarly, impacts on food production and fisheries are twice as severe in 2°C of warming versus 1.5°C.

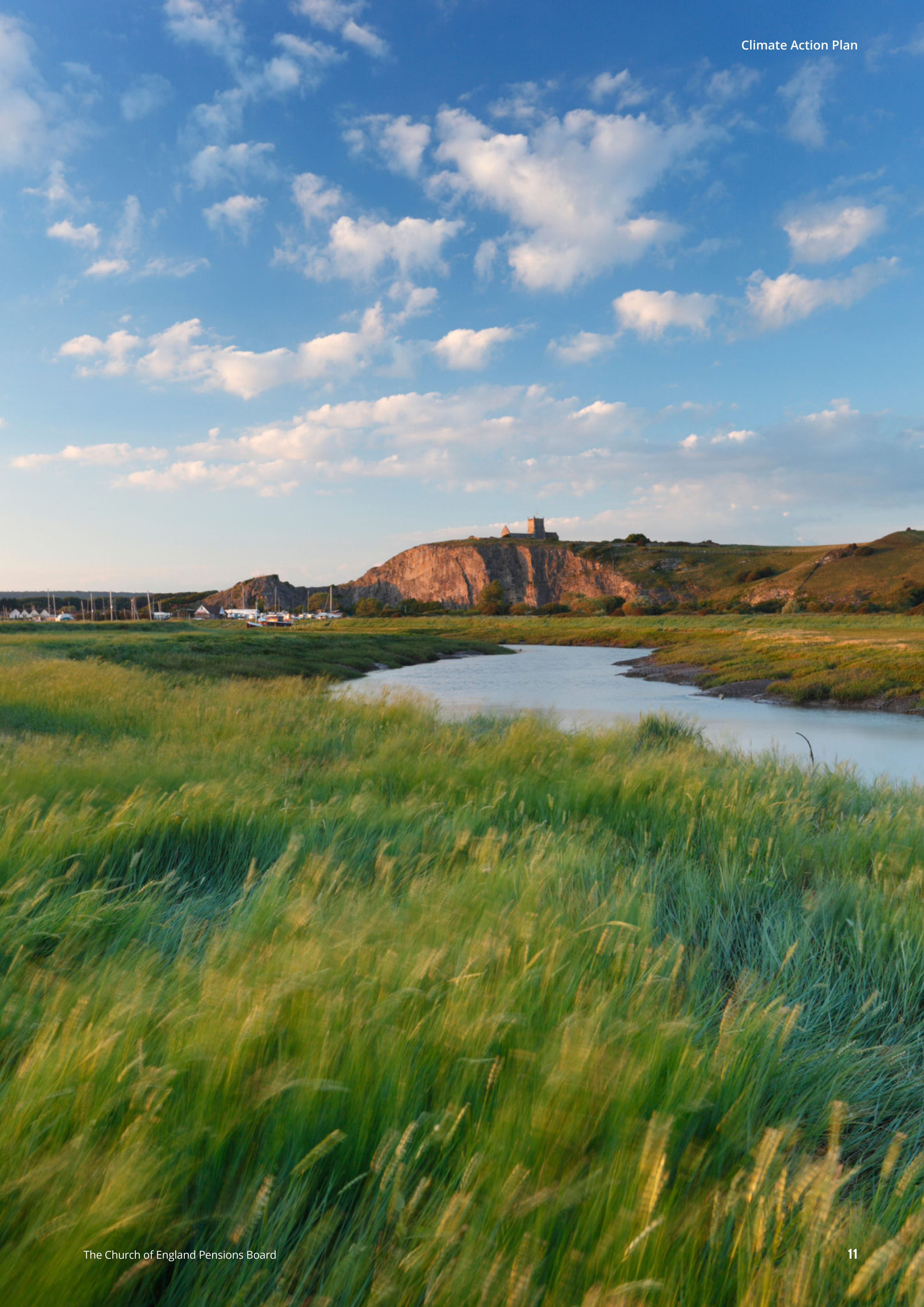
There are a number of levers the International Energy Agency's 1.5°C Net Zero Emissions scenario identifies that help speed up the transition, including:

Public policy and regulation – for example, pricing carbon, improving vehicle emissions standards, and funding low-carbon technology.

Technology improvements – such as commercialisation of green hydrogen and efficiency improvements in existing technology.

Ambition and investment from corporate and financial sectors – such as transition plans and strategies to decarbonise companies and sectors, and rapidly increasing investment in climate solutions.

Changes in consumer preference – for example, choosing low-carbon alternatives.



OUR HISTORY OF ACTING ON CLIMATE CHANGE

2017

- Launched the Transition Pathway Initiative
- One of the first signatories to CA100+ and active lead investor in key sectors

2018

- Launched lobbying initiative together with Swedish pension funds
- Co-filed resolution at Rio Tinto
- Made statements at Anglo, BP, Rio and Shell AGMs
- Climate change highlighted as top stewardship priority for CEPB

2019

- Co-filed resolution at BHP on corporate climate lobbying
- Made statements at Shell and BP AGMs

2020

- Co-chaired and supported the launch of the Paris Aligned Investment Initiative
- Committed to net zero portfolio emissions by 2050
- Shell the first oil and gas company to set net zero 2050 target, following sustained engagement
- Co-developed and launched the FTSE TPI Climate Transition Index
- The EIAG released an updated Climate Change policy

2021

- Co-filed a shareholder resolution at Volkswagen
- Launched the Net Zero Investment Framework
- Co-founded the Assessing Sovereign Climate related Opportunities and Risks (ASCOR) initiative

2022

- Co-filed a shareholder resolution at Volkswagen
- Launched the Global Standard on Responsible Climate Lobbying
- Launched the Emerging Markets Just Transition Initiative, supported by 12 other pension funds

2023

- Launched an ambitious Standard for the Oil and Gas sector
- Launched the Global Investor Commission on Mining 2030
- Published our first Climate Action Plan
- Publicly pre-declared votes at VW, National Grid, Toyota and Shell on climate change issues
- Secured commitments from National Grid and VW to review lobbying
- Led global process to develop a net zero standard for diversified mining

Our strategy

Our strategy focuses on two key themes:

1. Transitioning the economy away from fossil fuels.

2. Aligning financial flows with the aims of the Paris Agreement, including increasing investment and financing for climate solutions, in line with our beneficiaries interests.

We address these themes through six strategic pillars:

1. **Commitment to act** – establishing targets, commitments and appropriate governance to direct and oversee our strategy and its implementation.

2. **Public policy engagement** – ensuring the policy environment enables the transition in the real economy, including by asset owners like us, so that we can address climate change and invest in the transition to net zero; challenging negative climate lobbying from our portfolio companies; and encouraging positive climate lobbying.

3. **Understanding and driving the transition** – building the tools, knowledge and data required for asset owners like us to assess and take action, to direct capital towards the transition to net zero, and to take a leadership role.

4. **Robust stewardship and engagement** – using the levers available to us as shareholders to engage companies to act on climate change risks and opportunities under our priority engagement themes, and to escalate our engagement to voting and filing shareholder resolutions where companies are unresponsive, as well as integrating climate considerations in debt raising by companies. We are willing to use disinvestment, in line with our fiduciary responsibilities, where we do not perceive that a company is responsive to our engagement.

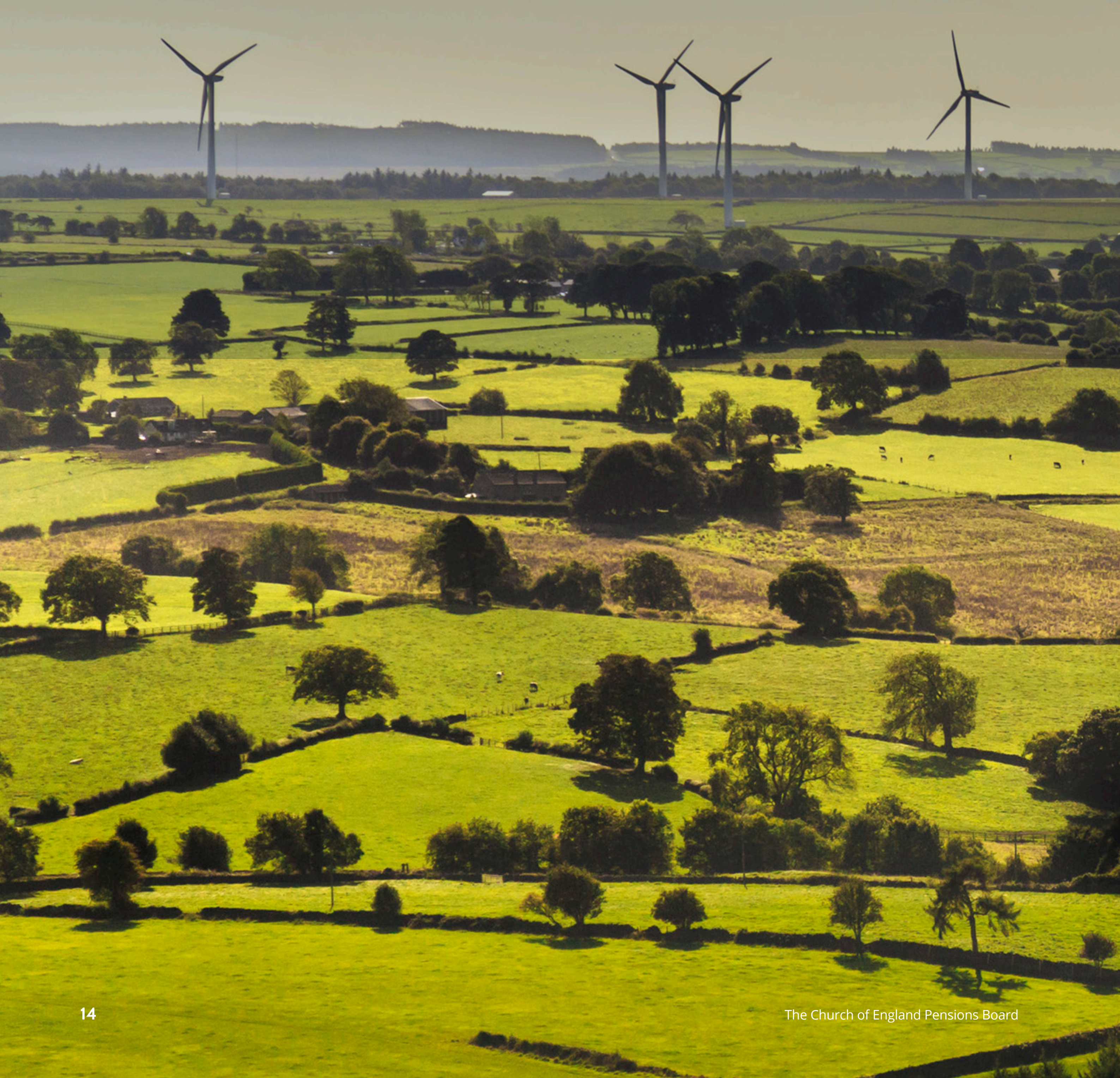
5. **Manager monitoring** – ensuring the asset managers we appoint are investing in line with our investment beliefs and strategies as they relate to climate change.

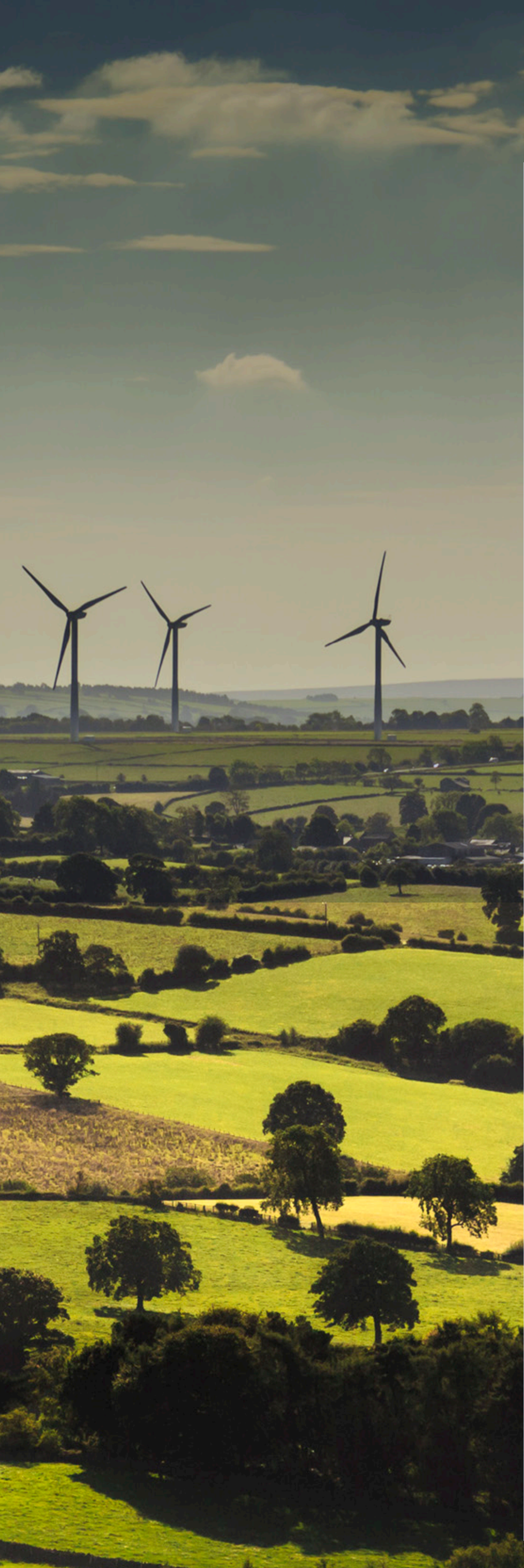
6. **Aligning our portfolio with net zero** – assessing, reporting on and aligning the carbon footprint of our investments by asset class with a transition to net zero emissions. This also includes regular stress-testing of our portfolio against climate risks.

Our commitment to act

The Church of England Pensions Board has committed to take action on climate change. This commitment is governed by our board of trustees, and reported on in our annual TCFD report. Our Chief Executive Officer, Chief Investment Officer and Chief Responsible Investment Officer are the executives responsible for implementing our climate approach, supported by management. Our 2022 TCFD report includes a summary of our governance approach to climate change.

In addition to our net zero portfolio commitment, the National Church Institutions have committed to reach net zero by 2030 for our operations.





OUR MEMBERSHIPS AND COMMITMENTS

We are signatories to the following member organisations and commitment platforms. These memberships and commitments support our aim to transition our portfolio to net zero emissions by 2050, and support the global economy to transition in a just and fair way, including in emerging markets.

The TPI Global Climate Transition Centre was co-founded by the Pensions Board. It is an independent research Centre within the London School of Economics that assesses 599 publicly listed companies on transition risk, in relation to both management quality and future carbon performance. Additionally, the Centre assesses corporate bonds and banks, and will shortly assess sovereign issuers.

Climate Action 100+ (CA100+) is the largest engagement coalition of investors ever assembled. It coordinates efforts to mitigate transition risk at the world's largest and highest carbon-emitting companies.

Institutional Investors Group on Climate Change (IIGCC) is a European coalition of over 370 investors across 22 countries (€50trn in assets) acting to address climate change. We are represented on IIGCC's board and chair or co-chair a number of working groups.

Paris Aligned Asset Owners (PAAO) are a global group of 56 asset owners with over $3.3trn in assets. They have committed to transitioning their investments to achieve net zero portfolio GHG emissions by 2050 or sooner using the Net Zero Investment Framework (NZIF). The Pensions Board co-chairs the Global Asset Owner Steering Committee which oversees the NZIF.

Ceres is a North American collaboration of more than 220 institutional investors managing more than $60trn in assets. It works with members to advance sustainable investment, engage with companies and advocate for key policy and regulatory solutions to accelerate the transition to a just, sustainable, net zero emissions economy.

Principles for Responsible Investment (UNPRI or PRI) is a United Nations-backed international network of financial institutions committed to six principles regarding responsible investment.

Robust stewardship and engagement

Responsibly managing our investments is central to our values. We also recognise the transformational role stewardship can play when asset owners work with companies to improve their ambition and commitments to climate action, and when we hold them accountable. The Board's climate change engagement and stewardship approach is guided by its Stewardship Implementation Framework.

We dedicate in-house resources to proxy voting (making our own voting decisions on the shares we own), maintaining a list of excluded investments and delivering impactful corporate and policy engagement. Our approach includes working with the rest of the investment sector to lead and develop collaborative tools to enable more robust stewardship across the industry.

Our strategy is to focus our engagements on the industries and themes that are most critical and impact real world emissions reductions, and that have the potential to be catalytic in the transition to net zero emissions globally. We also use strategic divestment as appropriate and informed by the guidance of the EIAG.

STEWARDSHIP – OUR COMMITMENTS

- We will engage 100% of our public equity holdings through proxy voting.
- We will conduct priority climate change engagements with companies that are fossil fuel users (demand-side companies) in the automotive, electric utilities and steel sectors to encourage rapid transitions away from fossil fuels.
- We will engage sectors dependent on transition minerals to ensure robust transition plans and alignment to best practice standards, incentivising socially and environmentally responsible mining.
- We will escalate engagements and use voting, denial of corporate debt and strategic divestment when companies fail to meet our expectations.
- We will seek lobbying and public policy disclosures aligned with the Global Standard on Responsible Climate Lobbying from priority companies.

OUR ENGAGEMENTS WITH OIL AND GAS COMPANIES

For several years we took a lead role in engaging with the oil and gas sector. We were lead investors, through Climate Action 100+, at Shell, one of the largest public oil and gas companies in the world. We also led the development of an ambitious Net Zero Standard for the Oil and Gas Sector which was managed by IIGCC. This Standard will lead to companies being benchmarked by the Transition Pathway Initiative (TPI) against a series of bespoke sector metrics that analyse oil and gas transition plans and hold companies to a higher level of ambition. This is a difficult standard to meet and has been piloted on five European oil and gas companies.

We set a clear deadline to our engagement that we would exclude any oil and gas companies from future investment and provision of debt where they are unable to align with a 1.5°C scenario by the end of 2023. This required independent assessment by TPI that a company's short-, medium- and long-term targets are aligned with the relevant 1.5°C pathway.

Although there has been significant progress as a result of engagement, we announced our intention to disinvest from the oil and gas sector in June 2023, given that no companies met the threshold of 1.5°C alignment. Any future consideration of reinvestment in an oil and gas company would require clear, independent evidence of robust, aligned short-, medium- and long-term targets, and a credible transition plan detailing aligned capital expenditure and corporate lobbying.

Importantly, our engagement with oil and gas majors underlined the urgent need for investors to focus not just on the supply of fossil fuels, but also on the demand for fossil fuels like coal, gas and oil. If we do not significantly change demand, we will not ultimately change those supplying it. Therefore, our focus for our engagement has shifted to driving commitments from demand-side companies to reduce as quickly as feasible their dependency on oil, gas and coal.

How we select companies for engagement

Engagement with companies on climate change is a high priority for the Pensions Board's stewardship team.

We already engage all of our public equity holdings via proxy voting and we report these votes in our annual stewardship report.

We further prioritise engagement with companies we own in the following areas:

- **Demand-side companies:** we conduct priority engagements with our holdings in the automotive, electric utilities and steel sectors that are covered by either CA100+ or Net Zero Engagement Initiative. We urge these companies to set 1.5ºC aligned emissions reduction targets, and to develop transition and investment plans that emphasise moving from fossil fuel use to zero-carbon alternatives.

- **Public policy and lobbying:** we assess global CA100+ companies on lobbying and public policy disclosure and identify companies for prioritisation, engagement and, where appropriate, escalation. We expect companies to support the Global Standard on Responsible Climate Lobbying.

- **Mining companies:** we engage with companies in the mining sector, with a focus on mining's role in the transition to net zero emissions globally. We urge these companies to set 1.5ºC aligned emissions reduction targets, and to develop transition and investment plans that emphasise the transition to net zero emissions. A major focus of our engagement is also to ensure that the mining sector is able to meet the demand for the transition minerals and metals needed to achieve 1.5ºC in a socially responsible way and in line with best practice standards.

We will report on key climate change engagements in our annual Stewardship report.

Priority engagement themes

The team prioritises climate engagement with companies on the following matters:

- On the basis of independent climate assessments (such as those provided by the Transition Pathway Initiative) which assess the alignment of company emissions reduction targets and transition plans. We seek alignment of company plans and capital expenditure with 1.5°C pathways.

- On lobbying and public policy disclosure (assessed by Climate Action 100+) and lobbying activity, including that of the company's trade associations (assessed by InfluenceMap).

- Supply chains and the transition to net zero, particularly given the interconnected nature of global industry and the potential to influence change through collaboration (e.g. the steel value chain, mining companies and critical minerals).

Engaging with the financers of fossil fuels

Banks are particularly important in the transition to net zero emissions globally. Banks have an important role in:

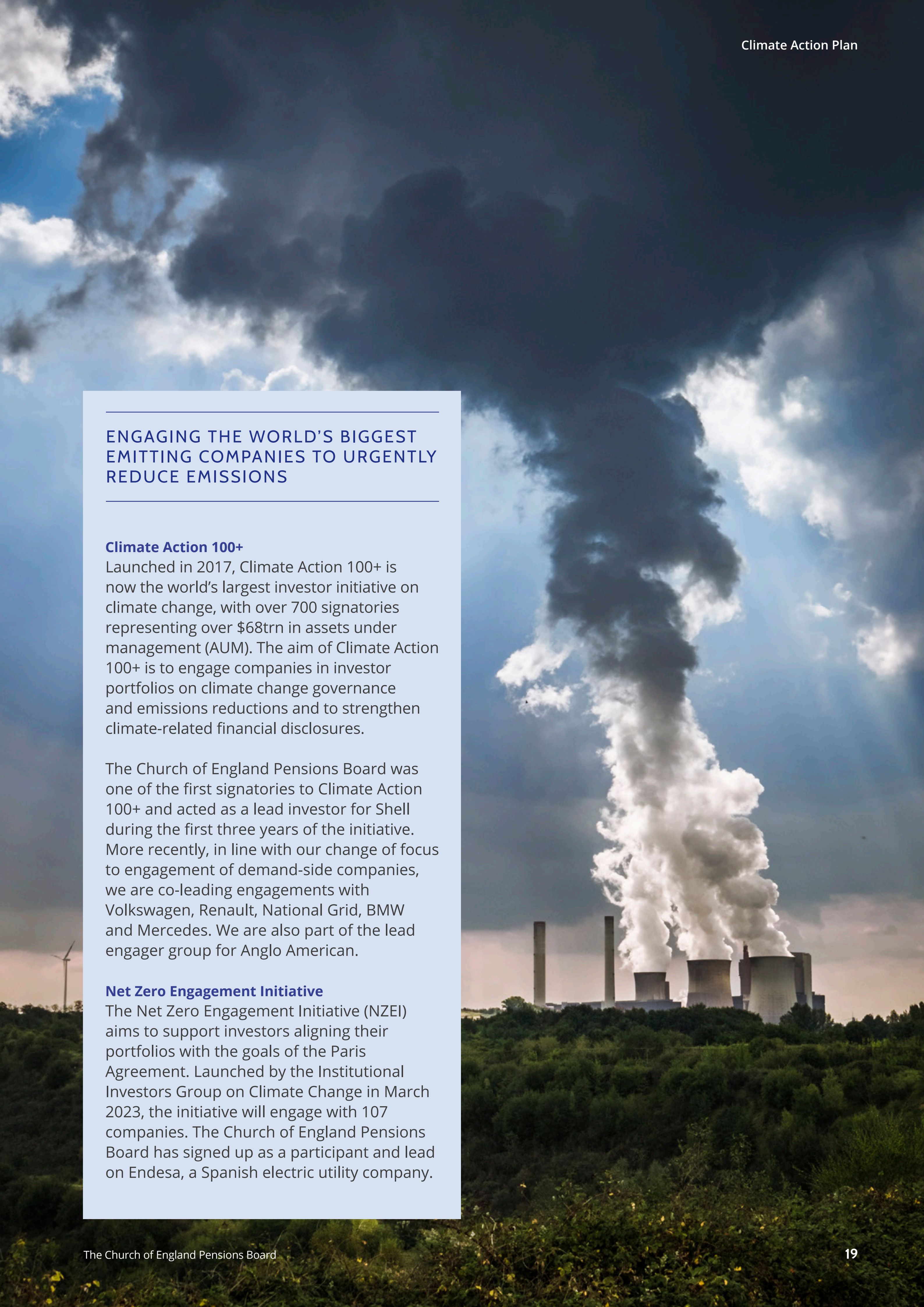
- Providing low-cost finance for clean energy projects like renewables, particularly in emerging markets.

- Limiting debt financing and lending to companies and projects which are misaligned with a 1.5ºC future.

- Providing transition finance to projects that will reduce emissions, such as energy efficiency.

- Enabling country transition plans to be realised.

The Pensions Board will conduct a pilot programme of engagement focused on the bank's financing of fossil fuel projects, particularly those related to the oil and gas sector.



ENGAGING THE WORLD'S BIGGEST EMITTING COMPANIES TO URGENTLY REDUCE EMISSIONS

Climate Action 100+

Launched in 2017, Climate Action 100+ is now the world's largest investor initiative on climate change, with over 700 signatories representing over $68trn in assets under management (AUM). The aim of Climate Action 100+ is to engage companies in investor portfolios on climate change governance and emissions reductions and to strengthen climate-related financial disclosures.

The Church of England Pensions Board was one of the first signatories to Climate Action 100+ and acted as a lead investor for Shell during the first three years of the initiative. More recently, in line with our change of focus to engagement of demand-side companies, we are co-leading engagements with Volkswagen, Renault, National Grid, BMW and Mercedes. We are also part of the lead engager group for Anglo American.

Net Zero Engagement Initiative

The Net Zero Engagement Initiative (NZEI) aims to support investors aligning their portfolios with the goals of the Paris Agreement. Launched by the Institutional Investors Group on Climate Change in March 2023, the initiative will engage with 107 companies. The Church of England Pensions Board has signed up as a participant and lead on Endesa, a Spanish electric utility company.

ESCALATION OF CLIMATE ISSUES AND STRATEGIC COMPANY EXCLUSION

We have developed an escalation framework to guide our approach to escalation on climate-related issues. It has the following elements:

Set company expectations and, where needed, sector standards with portfolio companies. We communicate these through face-to-face meetings, private and public letters, and Annual General Meeting statements.

In some cases, we set hurdles that companies need to overcome to remain investable.

Assess companies against expectations and hurdles using the Transition Pathway Initiative's independent assessments, Influence Map, CA100+ Benchmark and net zero standards where they have been developed, and using other data as appropriate.

Co-file/support shareholder resolutions where companies are failing to act on expectations.

Vote in favour of climate-related resolutions from other shareholders where they align with our objectives.

Vote against the re-election of the Chair of the Board and relevant Directors of the Board where the company is included in the CA100+ in a focus sector and does not have a TPI Performance Pathway that is either aligned with or below the NDC (Paris Agreement) pathway, or where directors are unresponsive following sustained engagement on a topic.

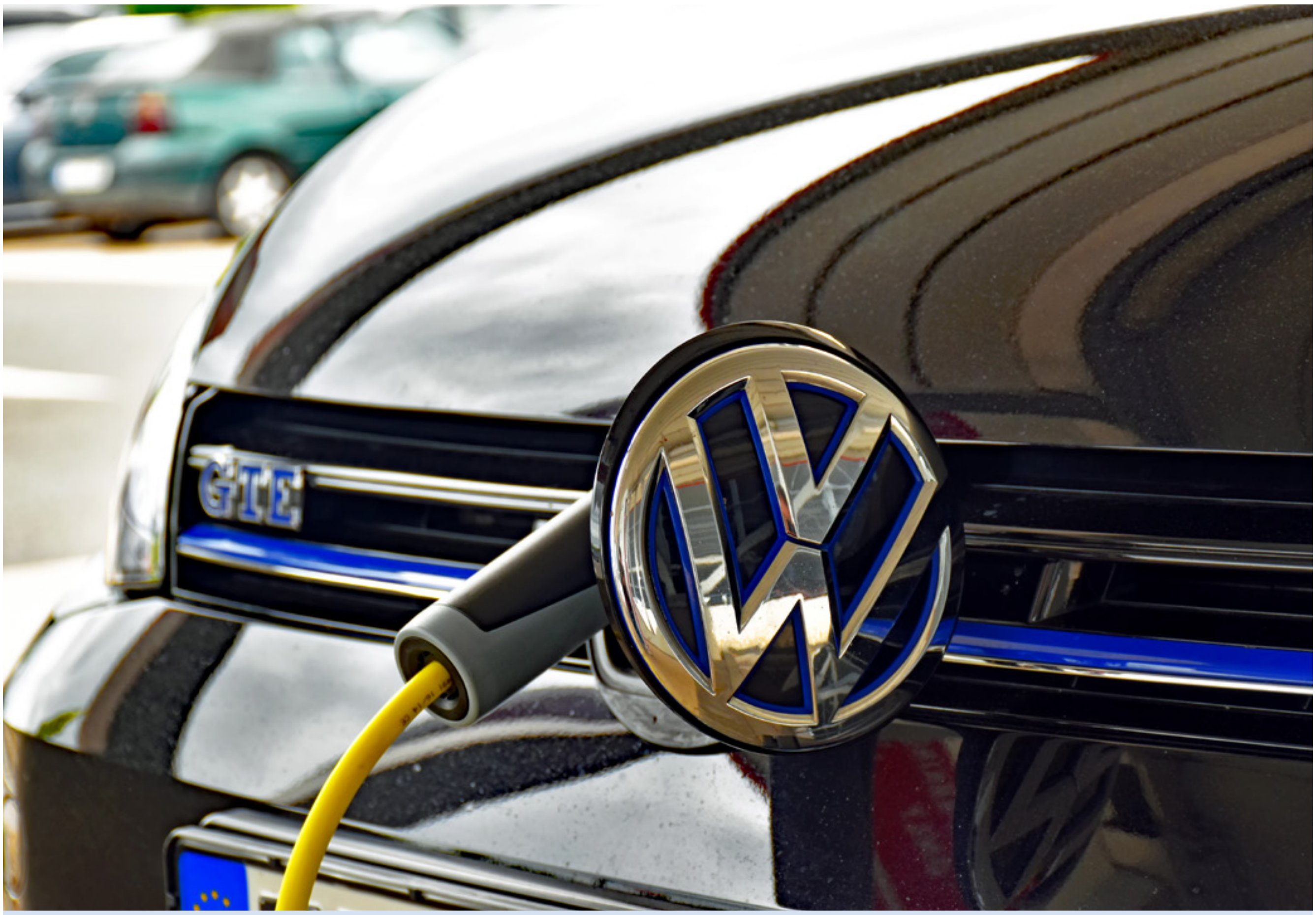
Vote against the re-election of the Chair of the Board and relevant Directors of the Board for CA100+ companies where there is a lack of disclosure of lobbying and public policy activities on climate change.

Vote against the re-election of the Chair of the Board where the Company is not at least assessed as meeting Level 3: 'Integrated into Operational Decision Making' of the TPI Framework from 2024.

Incentivise through investments where companies are meeting climate benchmarks via the TPI FTSE Climate Transition Index.

Exclude investment in companies that are misaligned with 1.5°C scenarios and companies that persistently fail to act on expectations, following sustained engagement and escalation.

We engage with banks on lending and debt financing to companies which are misaligned with 1.5°C scenarios.



ENGAGEMENT WITH VOLKSWAGEN

The Church of England Pensions Board has been engaging with Volkswagen AG since 2018, and as a designated co-lead investor for Climate Action 100+ since 2021. Our engagement focus has been on ensuring the company is positioning itself for a low-carbon future, including reducing its emissions and phasing out production of internal combustion emission (ICE) vehicles, and on the company's public policy and lobbying on climate.

In 2021 and 2022, we co-filed a resolution (known as an 'amendment' in Germany) calling for the company to provide public disclosure on its lobbying and public policy activities and those of its trade associations. Unfortunately, the company has resisted including these on its Annual General Meeting voting ballots for other investors to consider. The matter was the subject of a legal case on shareholder rights in Germany. While it was not successful, it was the first investor-filed legal action in Europe stemming from a climate issue.

We voted against the actions of management and the supervisory board and the re-election of VW's supervisory board members at the 2023 AGM, given our concerns about the company's position as a laggard on climate lobbying and emissions reduction ambition. We were also public about our approach and votes.

In 2023, and following our engagement, the company released its first climate lobbying and industry associations disclosure – a major milestone for the engagement. We will continue to engage with VW on the robustness of its emissions reduction targets, and to improve its approach to climate lobbying and other key matters.

Public policy engagement

Public policy is one of the most important determinants of whether we will achieve the goals of the Paris Agreement. Robust, evidence-based public policy is essential to ensure companies and investors have the regulatory certainty to make larger investments in the transition to net zero sooner, and can speed up the substitution and closure of fossil fuel assets such as coal-fired power stations, gas in buildings, households and industrial processes, and oil use in transportation.

Analysis by the Network for Greening the Financial System, a network of central banks, has also shown that with appropriate climate policy, the global economy could transition in an 'orderly' fashion which would lead to an increase in global gross domestic product (GDP). Delays in implementing robust climate policy, however, lead to a disorderly transition and a decrease in GDP – and this is before accounting for the costs of extreme weather events.

Our main areas of focus in our public policy engagement are:

- Addressing corporate climate lobbying.
- Improving tools for sovereign issuers to better understand risks and opportunities for sovereign debt markets.
- Advocacy to policymakers on phasing out oil and gas and the transition to a low-carbon economy, with consideration for the differences in developed and developing economies.
- Participating in government-led initiatives such as the HM Treasury Transition Plan Taskforce.
- Providing feedback on public consultation processes where related to climate change and our objectives.

Our work on corporate climate lobbying

We have worked on corporate climate lobbying since 2018 because we recognise that it is a systemic risk to securing the climate policy and regulation we need to limit global warming to 1.5ºC. For example, companies that are exposed to the costs and regulation of further climate change action have been known to seek to distort climate policy debates and weaken legislation. Trade associations and lobby groups acting on behalf of their industry members are also highly active globally in public policy debates and can exert a strong influence to limit the scope of public policy. They can also be a positive influence. We believe negative corporate climate lobbying is a systemic risk to limiting global warming to 1.5ºC. We began this work more than five years ago, and in this time we have:

- Produced European Expectations on Climate Lobbying, with IIGCC.
- Supported the US Expectations on Climate Lobbying, with Ceres.
- Advocated for the inclusion of robust company public policy and lobbying assessments in the CA100+ Net Zero Company Benchmark.
- Filed shareholder resolutions on climate lobbying, including at BHP and Volkswagen.
- Launched the Global Standard on Responsible Climate Lobbying, with BNP Paribas and AP7.

We have seen the following outcomes:

- Over 30 European Climate Action 100+ companies and more than 55 global companies have responded to our engagement, together with that of other investors, and produced a climate lobbying and public policy disclosure.
- Resolutions on lobbying globally more than doubled between 2021 and 2022, with at least 15 filed by early May in the 2023 proxy season, mostly in the United States.

PUBLIC POLICY – OUR COMMITMENTS

- We will seek lobbying and public policy disclosures aligned with the Global Standard on Responsible Climate Lobbying from priority companies.
- We will conduct strategic engagement and dialogue with sovereign debt issuers on climate-related issues.
- We will advocate for a policy that supports a phase-out or moratorium on oil and gas, with just pathways for developed and developing economies.
- We will produce a public policy and industry associations disclosure for the Pensions Board.

GLOBAL STANDARD ON RESPONSIBLE CLIMATE LOBBYING

The development of the Global Standard on Responsible Climate Lobbying was co-led by the Church of England Pensions Board, Swedish pension fund AP7, and French fund manager BNP Paribas.

The framework is the first global standard setting best practice for companies to disclose public policy positions and industry associations practices on climate lobbying. The standard has 14 indicators which are designed for all sectors and regions globally.

The framework calls for specific disclosure covering: policy commitments, governance, disclosure of industry association links and activities including an assessment of alignment, and a disclosed approach to address misalignments. It is expected that the Standard will inform future evolution of the CA100+ company benchmark.

ASSESSING SOVEREIGN CLIMATE OPPORTUNITIES AND RISKS (ASCOR)

ASCOR is an initiative that the Pensions Board set up and co-chairs alongside the BT Pension Scheme and two debt fund managers, Colchester and AMUNDI.

This initiative will support investor engagement and stewardship with countries through the lens of being a holder of their debt. The framework will set out a common basis to assess individual country climate change approaches and will aid investors in understanding sovereign action and progress, and the financing needed by governments to achieve their goals.

ASCOR published a Consultation Report early in 2023 and will publish its first assessment by the end of 2023, covering 25 countries. Following its release, the Church of England Pensions Board intends to begin engagement with issuers of sovereign debt, prioritising top sovereign holdings and emerging markets. It is expected that the universe of coverage assessed by the ASCOR tool to be hosted by TPI will grow to 75 countries in 2024.

Understanding and driving the transition

The investment sector requires a range of tools and data in order to understand and effectively engage across the portfolio on climate-related issues.

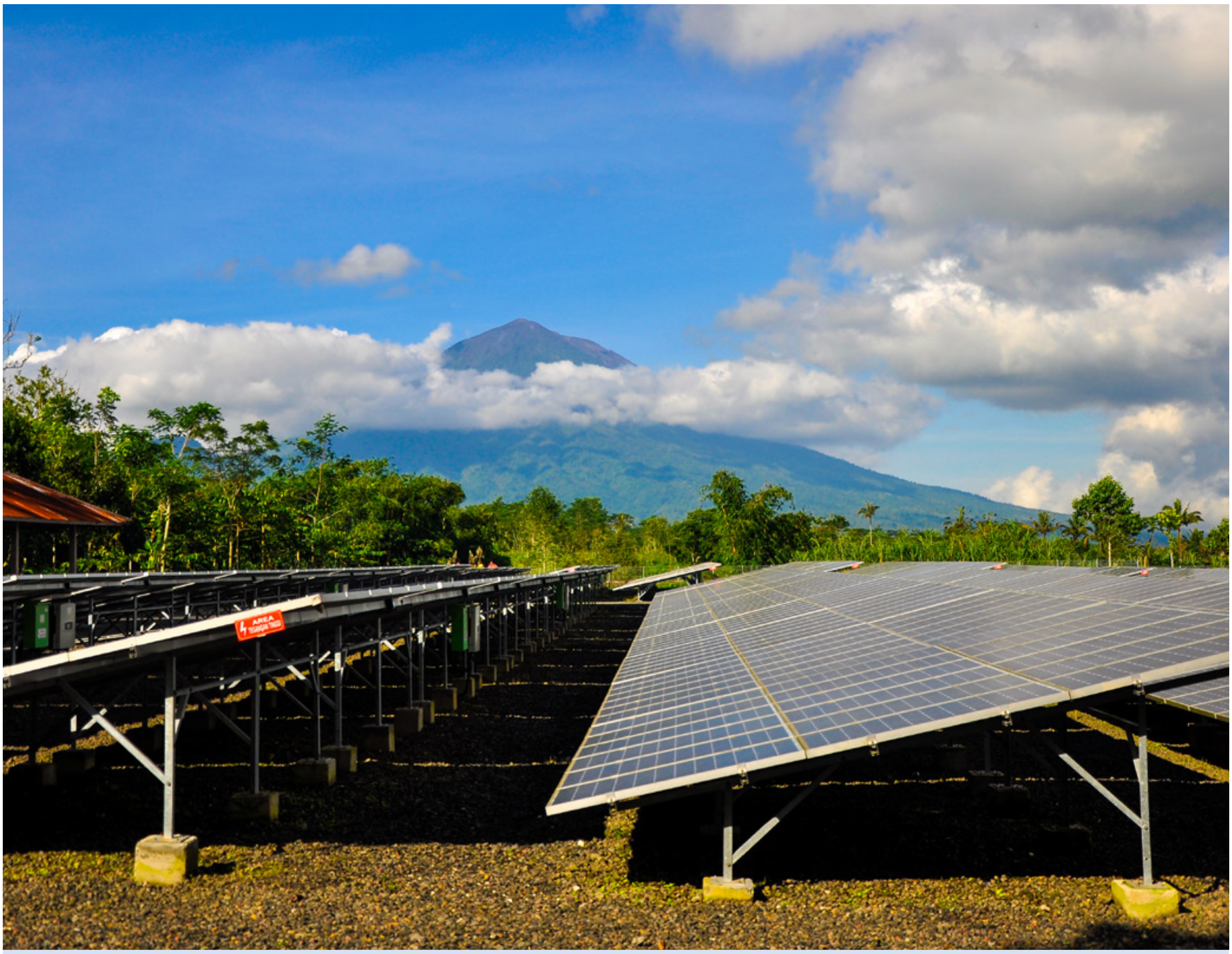
The Church of England Pensions Board is committed to understanding the complexity of the transition, and also to directly leading and building tools that we and our peers in the investment sector can use to drive change.

The work we have done to develop frameworks, standards and tools includes:

- Co-founding the Transition Pathway Initiative (TPI) in 2018, following our identification of a gap in the investment data landscape for an independent, academically rigorous data provider that could transparently assess the world's heaviest emitting companies on transition risk. The TPI is now a leading independent provider of data, assessing over 600 companies on management and governance of climate change and company carbon performance.
- Co-founding the ASCOR initiative, to develop a framework for assessing sovereign climate risks and opportunities. This will be key to enabling investor understanding and investment in country transition plans.
- Founding the initiative to create the Net Zero Investment Framework (NZIF), which created a common framework for investors to use to align portfolios with net zero emissions by 2050 and to set out a plan to do so. The framework was led by the Pensions Board and launched in 2021.
- Co-leading, with IIGCC, the development of Net Zero Sector Standards to complement the largely sector-agnostic CA100+ and TPI analysis. To date we have supported:
    - Oil and gas standard, launched in 2023.
    - Mining standard, launched in 2023.
    - Autos standard, in development.
- We have also led the development of the Emerging Markets Just Transition Investment Initiative – an initiative with 11 other United Kingdom pension funds, representing over £400 billion in AUM and 18 million pension fund beneficiaries, to drive the transition to net zero emissions in emerging markets – a critical and underserved part of the global transition to net zero emissions.

UNDERSTANDING THE TRANSITION – ACTIONS

- **We will support and/or lead the development of, and subsequent corporate reporting against, net zero sector standards for key sectors in the transition to net zero emissions.**
- **We will lead the Global Investor Commission on Mining 2030, which is focussed on transforming the mining sector and the way investors incentivise a vision of socially and environmentally responsible mining; and on ensuring it can meet the demand for the low-carbon transition for transition minerals and metals.**
- **We will lead the Emerging Markets Just Transition Investment Initiative, including building tools to support increased allocations to climate in emerging markets.**



ADVOCATING AND INVESTING IN A JUST TRANSITION IN EMERGING MARKETS

In 2022, the Church of England Pensions Board convened 12 UK pension funds (representing 18 million members with assets of £400 billion) who committed to collaborate to support the climate transition in emerging markets.

This new initiative, the Emerging Markets Just Transition Investment Initiative, includes UK pension funds such as Universities Superannuation Scheme, Border to Coast Pensions Partnership, Brunel Pension Partnership, BT Pension Scheme, Northern LGPS, Railpen, and the National Employment Savings Trust.

To date, the initiative has explored how it can collaborate, drive real-world change, and understand the most practical ways to scale the funding required to support the climate transition in emerging markets and developing economies (EMDEs).

In November 2022, the initiative published draft principles to guide their work, including:

- Advocacy towards a just transition in EMDEs
- Aligning internal policies and approaches towards a just transition in EMDEs
- Practically working to de-risk investments in support of intentional allocations within and across asset classes.

Aligning our portfolio with net zero emissions

We apply leading tools and methodologies to our own investment portfolio, across asset classes, to meet our goals of reaching net zero portfolio emissions by 2050 and aligning our portfolio with 1.5°C.

We use the Net Zero Investment Framework (NZIF) to consider our portfolio alignment, as well as:

- The FTSE TPI Climate Transition Index for our public equity investments.
- Alignment of approach from the index to our remaining active holdings (ensuring consistency in excluding from active investments those companies that do not make the index).
- Alignment testing tools.
- Stress testing and scenario analysis to find vulnerabilities in our portfolio under different climate scenarios.

Investing in climate solutions

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

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

The majority of climate finance required will be in 'transitional climate solutions' in emerging markets, and much of this will be issued as debt. We are actively considering a number of approaches that have the right risk and return profile and features to complement our portfolio, resulting in real-world emissions reduction, and in a focus on the highest area of need.

PORTFOLIO ALIGNMENT AND TESTING – ACTIONS

- We will reduce the carbon intensity of our public equities portfolio by 7% year on year, and reach net zero by or before 2050.
- We will report on our assets under management invested in transition and climate solutions activities annually, and develop an investment strategy aimed at increasing our exposure to climate solutions.
- We will advocate for further sophistication in investor frameworks and investor tools to ensure that fairness and differentiated responsibilities are embedded into how emerging and developing markets are treated.
- We will set quantitative emissions reduction targets for each asset class where methodologies are available to do so.
- We will conduct climate change scenario analysis at least every three years, and disclose the outcomes in the relevant TCFD report.

Our Portfolio

	% OF PORTFOLIO[2]	APPROACH
Public equities	**29%**	7% year on year reduction in carbon emissions intensity (WACI), which equates to -35% by 2025, and -55% by 2040. Carbon Performance (TPI) in line with Paris/2D by 2023. We also vote all of our shares in line with our voting policy and the escalation framework described on page 20.
Index-linked gilts	**21%**	We will apply ASCOR assessments to this when available.
Infrastructure	**16%**	WACI better than year on year improvement of 7% relative to public benchmark.
Property	**10%**	Preference: CRREM, Below 2D warming target pathway. To be set once our manager's methodology has been reviewed. Likely: 100% aligned or aligning to net zero by 2050.
Corporate debt	**7%**	Excluding non-aligned companies in high emitting sectors by 2023. ASCOR will enable sovereign targets.
Private debt	**7%**	We are working with our asset manager on an approach to this asset class.
Private equity	**5%**	We are working with our asset manager on an approach to this asset class.
Emerging markets debt	**3%**	We will apply ASCOR assessments to this when available.
Alternative income	**1%**	We are working with our asset manager on an approach to this asset class.
Cash	**3%**	

2. Does not sum to 100% due to rounding.

THE FTSE TPI CLIMATE TRANSITION INDEX

The Church of England Pensions Board's listed equity investments track the FTSE TPI Climate Transition Index, which the Pensions Board's stewardship team helped to design, in collaboration with FTSE Russell. This index integrates five different climate adjustments into its methodology, in order to mitigate climate transition risk. These are:

- Fossil fuel reserves: Underweight companies with fossil fuel reserves.
- Carbon emissions: Over/underweight companies according to their greenhouse gas emissions while 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 to which they are committed to carbon emissions pathways that are aligned with 2° or below-2° Celsius warming scenarios. The Index will be updated to reflect recently introduced 1.5°C alignment assessments by TPI.

The Pensions Board views carbon performance as particularly important, because it is a forward-looking assessment that identifies companies' commitment to transition. If a company does not disclose enough data to allow TPI to make an assessment, and if a company's transition plan is not in line with the Paris Commitments, the company weighting is reduced to "0" in the index.

CLIMATE SOLUTIONS INVESTMENTS

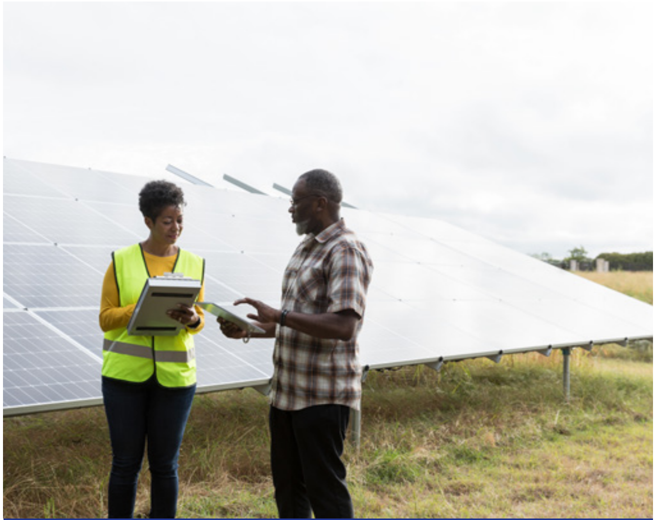
A climate solution investment typically refers to an investment in an economic activity, good or service that contributes substantially to the emissions reductions required by a 1.5ºC pathway.

The IIGCC proposes three classes of climate solutions investments:

- 'Low-carbon' climate solution, which refers to activities with close to zero emissions that already make a substantial contribution to achieving net zero, e.g. the leasing of passenger vehicles with zero tailpipe CO2 emissions.
- 'Transitional' climate solution, which refers to activities that make a substantial contribution to the transition to net zero by reducing their emissions, even if they are not yet low carbon, e.g. the manufacture of cement with CO2 emissions intensity below a specific threshold, and the leasing of vessels with a large percentage of energy from zero-carbon fuels.
- 'Enabling' climate solution, which refers to activities that are enabling emissions reductions in the wider economy, e.g. the manufacture of energy-efficient equipment for buildings, and infrastructure for low-carbon road transport such as EV charging points. Climate solutions may vary by region and over time.

Data availability for assessing the proportion of an investor's AUM allocated to climate solutions and transition investments is still weak, making it hard to set a clear baseline of current investments upon which to base a quantitative target. For this reason, the Church of England Pensions Board intends to focus on correctly assessing, classifying and reporting its exposure to climate solutions and transition investments, before setting a quantitative target in the future.

Manager monitoring



MANAGER MONITORING – ACTIONS

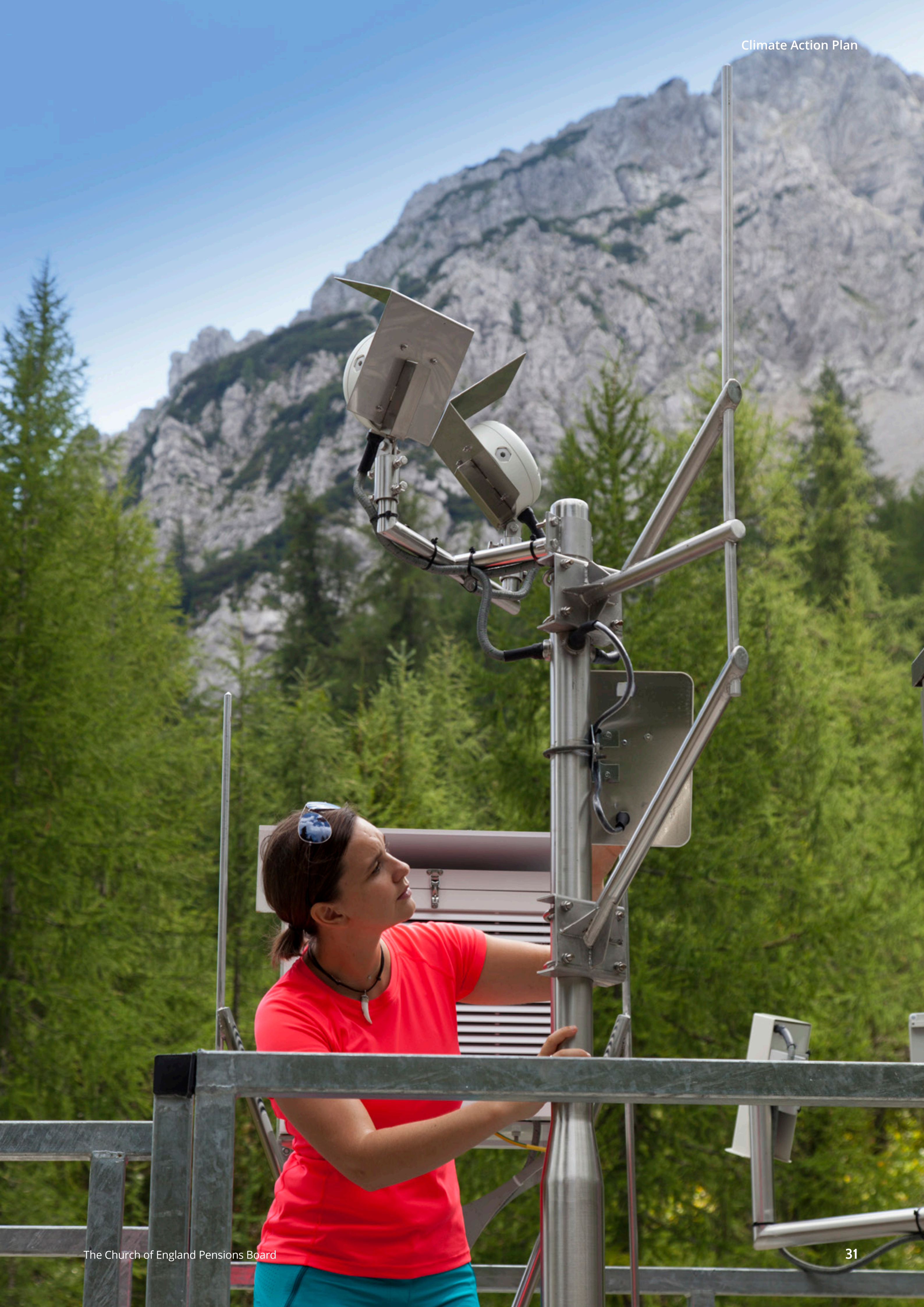
- Work to increase the proportion of our managers which are actively committed to net zero.
- Assess all managers on climate and ESG, and engage with them individually and set specific expectations.
- Escalate with managers where their climate and ESG approach is materially misaligned or wider fund belief and stewardship approaches misalign with our members' long-term interests.
- Seek support from our managers on strategic stewardship interventions in the wider market led by the Board, such as TPI, Lobbying Standard, Global Investor Commission on Mining 2030.

The Pensions Board appoints best-in-class investment managers to invest in different types of investments on our behalf. To ensure our values and preferences are fully integrated into these investments, we have an active manager monitoring process across all ESG and ethical issues. The Church of England Pensions Board's Investment Committee is presented with a report on manager performance on a quarterly basis which includes:

- Financial metrics and analysis
- ESG scores and narrative reporting (assessed by the Pensions Board in-house investment team)
- Climate and ESG data points (including stewardship alignment, diversity characteristics of the asset manager, net zero commitments, climate metrics where available, including carbon intensity vs benchmark)
- ESG scores (assessed by Mercer)

All asset managers are currently covered by the in-house ESG assessment methodology. Each asset manager is subject to individualised ESG/stewardship engagement as part of our asset manager monitoring processes. We also embed ESG and climate considerations in our manager selection and appointment processes.

Where climate and ESG approaches taken by our managers are materially misaligned with our internal approach, we will engage, escalate, and ultimately (as outlined in our Stewardship Implementation Framework) terminate a mandate on the basis of poor ESG or stewardship performance.



Appendix: Net Zero Investment Framework index

NZIF ASPECT	COE PB APPROACH
GOVERNANCE AND STRATEGY	
Commit to the goal of achieving net zero portfolio emissions by 2050, or sooner, and adopt an investment strategy consistent with the achievement of global net zero emissions by this date.	Committed to net zero portfolio emissions by 2050 in 2020.
Define beliefs, set investment strategy and mandates/performance objectives for portfolio managers, asset managers, and other relevant personnel.	Set out in annual TCFD reporting.
Undertake climate financial risk assessment in line with TCFD recommendations.	Undertaken and disclosed every two years.
Publish a clear action plan, and disclose information on governance, strategy, metrics and targets, and management in relation to achieving alignment to net zero.	First action plan published in 2023 – to be updated if strategy materially changes.
TARGETS AND OBJECTIVES	
Set medium-term emissions reduction and climate solutions reference targets to inform SAA and monitor impact of the strategy.	We have set a 7% year-on-year portfolio emissions reduction target for our equities portfolio. Once data is more readily available to benchmark other asset classes, we will set emissions reduction targets by asset class. We will report on climate solutions investments in our annual TCFD report, and establish a new strategy to invest in the transition in emerging markets.
STRATEGIC ASSET ALLOCATION	
Update capital market assumptions based on scenario analysis.	We use stress testing to inform and update assumptions. We ensure our managers (who stock pick on our behalf, except for excluded companies) are updating assumptions and setting targets.
Optimisation with emissions and climate solutions metrics.	The Investments Committee reporting includes climate change and emissions metrics. We have also conducted a portfolio optimisation exercise using climate emissions data.
Set asset class mix with climate variants.	We select our asset class mix based on financial considerations, then apply climate considerations at the implementation phase.
Review constraints to increasing alignment.	We have reviewed constraints including investment advice, tools, availability of suitable funds, alignment of managers, risk appetite and regulation. We are working on a project to address constraints specific to transition and climate investments in emerging markets.

NZIF ASPECT	COE PB APPROACH
ASSET CLASS ALIGNMENT	
Assess assets based on current and forward-looking alignment criteria, and investment in climate solutions.	Our equity portfolio uses the FTSE TPI Climate Transition Index, which reflects both current and forward-looking alignment criteria.
Set goals for increasing percentage of AUM invested in aligned assets.	We will report annually on our exposure to climate solutions, and establish a new strategy to increase our exposure.
Implement an engagement goal to ensure at least 70% of financed emissions in material sectors are either net zero, aligned to a net zero pathway, or the subject of direct or collective engagement and stewardship actions.	100% of our equity portfolio is under engagement via voting, and our most material emitting holdings are subject to priority engagement either directly or via collaborative engagement.
Portfolio construction: Screening, positive and negative weighting, tilted benchmarks to allocate capital to support alignment and invest in climate solutions.	Our equity portfolio uses the FTSE TPI Climate Transition Index, which reflects the performance of global and diversified indices but accounts for how different companies are responding to the transition to net zero.
Engagement: Criteria-based escalating engagement and voting strategy for non-aligned assets; tenant and issuer engagement.	We have an escalations framework that we use, which includes the use of all engagement tools (voting, filing).
Selective divestment: Based on climate-related financial risk; engagement escalation; nonpermissible activity thresholds.	Our escalations framework uses divestment or exclusion as a final step where companies are persistently misaligned with 1.5°C scenarios and fail to act on expectations, following sustained engagement and escalation.
POLICY ADVOCACY AND MARKET ENGAGEMENT	
Net zero aligned policy and regulation.	Our climate policy and related policies are publicly available.
Disclosure; shareholder rights.	We engage directly with policymakers and regulators on disclosure and shareholder rights. We have also used the legal system to push for greater clarity on shareholder rights.
Collective and direct advocacy delivered through meetings, letters, responding to consultations, and media activity, as well as ensuring trade association advocacy is consistent with net zero goals.	We have committed to developing and releasing a report on our own climate policies and industry associations aligned with the Global Standard for Corporate Climate Lobbying.
MARKET ENGAGEMENT	
Asset manager or client.	We have a comprehensive approach to manager selection and monitoring, with regular reporting on manager ESG performance back to our Investment Committee. While we vote our shares, we also engage with our managers on their own voting practices.
Market actors including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers.	We engage with a wide range of stakeholders on climate change, including proxy advisors, data and service providers, stock exchanges, and industry associations; and regularly collaborate with them via initiatives such as Mining 2030.

THE CHURCH OF ENGLAND

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For more information on the Church of England Pensions Board: **www.churchofengland.org/cepb**

We hope you find this report informative.
If you have any feedback, please email cepbfeedback@churchofengland.org