THE CHURCH OF ENGLAND
PENSIONS BOARD

Stewardship Report 2022

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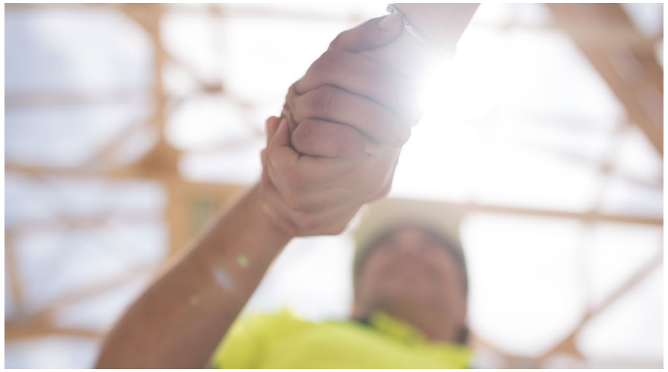

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Welcome

We live and invest in a challenging world – from rampant inflation to war in Europe and the threat of widespread recession. In this context it is all the more important for the Pensions Board to carefully steward the investments entrusted to our care. We did not hold any Russian sovereign debt in our funds due to an existing ethical exclusion and we acted promptly on the morning of the invasion to exit from the very few Russian companies in which we were invested.
We were public about our approach so that other funds could consider their own responses.

The Board's trustees are committed to using our voice and our influence as an investor in the interests of our members, not only driving good investment outcomes, but doing so in a way that contributes positively to people and planet.

Good stewardship remains at the heart of our work. We were pleased to retain our signatory status for the Financial Reporting Council's UK Stewardship Code and continue to engage as an active owner on issues of human rights, executive pay, mining and climate change. The Transition Pathway Initiative (TPI), led by the Board, provides the leading investor tool for assessing companies' public disclosures on their climate transition plans. In October, the TPI Global Climate Transition Centre was formally opened to dramatically expand the TPI's reach, from the current assessment of 600 companies to 10,000 in the coming years. In 2022, we co-chaired a similar initiative looking at corporate and sovereign bonds, and led discussions with other pension funds and the UK Government on how to support emerging economies achieve a just transition to a low carbon world. We are also working to meet the significant challenge of decarbonising our own operations, not least our housing portfolio.

Through careful stewardship and strong investment returns in recent years, the Clergy scheme reported a funding surplus for the first time in its history. This has enabled us to reduce employer contribution rates, while maintaining member benefits in full. Our smaller pension schemes have also performed well despite poor market conditions this year. While headline investment returns are important, the key goal for a pension fund is to ensure that the assets are sufficient to meet long-term pension promises (liabilities) taking account of systemic risks. On this key measure, our schemes have all shown improvement since their last valuations. This long-term view is also adopted in our stewardship approach, where we have committed to multi-year interventions in climate and mining.

It remains our deep privilege and joy to serve those who work or minister for the Church. We are looking forward to the year ahead and to continuing our work to steward assets on behalf of our members.

John Ball
CEO

Clive Mather
Chair

> **"We believe members should be able to retire well, confident that their pension funds are invested and stewarded in ways that secure their pensions and help create a more fair and sustainable future."**

Clive Mather

Introduction

Serving our members means we need to navigate long-term systemic risks that challenge society and can or will cause major social impacts. These impacts in turn challenge our ability to invest by destabilising industrial sectors or entire markets. Systemic risks range from well-known issues like climate change to issues like biodiversity loss and the impacts of anti-microbial resistance, artificial intelligence and conflict, either at the local, regional or national level.

As a fund, we cannot address all these issues, but we have a much better chance of driving change if we work collaboratively and in partnership with other investors, industry and civil society. Further developing our approach to global systemic risks will be a major priority for our future work.

One systemic risk is climate change, and in this year's Stewardship Report we set out how we are attempting to drive a response that matches the scale of the challenge, on behalf of members. A disorderly climate transition not only greatly impacts the poorest in society, who are least able to adapt, but it also directly works against our financial interests.

To tackle climate change requires a multifaceted approach. We have developed the public accountability tools to understand and track progress. We have committed to pull all the levers we have to drive change, including a willingness to drive interventions with partners across the finance sector, and to engage with policy makers.

It also requires humility. We continue to learn as our responses evolve, and we are willing to admit it when the interventions that we lead need to be recalibrated or changed.

For example, we have engaged the oil and gas sector for almost a decade and have made considerable progress, particularly with European oil and gas majors, but we need to be doing more. In parallel to defining a rigorous net zero oil and gas standard, we are now focusing on changing the demand for oil and gas. When the demand in key sectors that use these energy sources is changed, supply is also changed, which in turn will help to reduce emissions.

However, no climate transition can happen without effective legislation, and developing global standards for how industries lobby governments is a key aspect of ensuring we have the regulatory landscape we need to support a lasting transition.

Another area we continue to learn in is our response to emerging markets. Unless investments are made that enable governments in emerging markets to transition to greener sources of energy, and achieve their climate goals, we will lose the fight to keep emissions within manageable levels. We also betray the collective responsibility we all share to ensuring a 'just' climate transition. That's why we have been leading an effort to work with other UK pension funds to find ways to invest that meet our risk and return requirements, while also intentionally supporting emerging markets.

This report covers a broad spectrum of issues and sets out our future priorities, including finding ways for investors and businesses to better support reconciliation and peacebuilding efforts related to conflict. This will be a priority for us in 2023, as will our work with the Global Investor Commission on Mining 2030, an initiative that aims to create, and drive a vision towards, a more responsible mining industry.

None of this would be possible without a trustee body that is committed to ensuring our fund has the resources it needs to be able to lead the international, market-wide interventions we make on behalf of our members. This enormous privilege continues to be developed by a brilliantly committed, creative and thoughtful investment team.

Adam Matthews
Chief Responsible Investment Officer

Our pension schemes

By the end of 2022, the total value of assets in our care was £3.2bn[1], on behalf of 42,000 members and across three pension schemes. Around 700 different Church organisations participate in our schemes, including dioceses, parishes, Church charities and mission agencies.

The Church of England Pensions Board is trustee of three regulated pension schemes:

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

Church Workers Pension Fund (CWPF) provides pensions for the staff of employers linked to the ministry and mission of the Church of England. This has been the fastest growing scheme in recent years, as parishes and other Church organisations have sought to offer qualifying employees a pension that meets auto-enrolment and has excellent ethical credentials.

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

The Board is one of three National Investing Bodies of the Church of England, alongside the Church Commissioners and the CBF Church of England Investment Fund (managed by CCLA). Investments for the CEFPS, CWPF and CAPF DB are pooled and invested in **our common investment fund** (totalling £3.2bn). Pooling allows the smaller schemes to access economies of scale and investment opportunities that might not otherwise be available.

1. Total funds include assets in the common investment fund and individual scheme matching assets, plus two insurance policies relating to CWPF scheme liabilities, clergy additional voluntary contributions, and DC scheme investments, which are held outside the Common Fund (DC assets are not included in the calculations of headline returns. These funds, responsible investment characteristics are reported separately by LGIM which manages the funds).

DEFINED CONTRIBUTION SCHEME

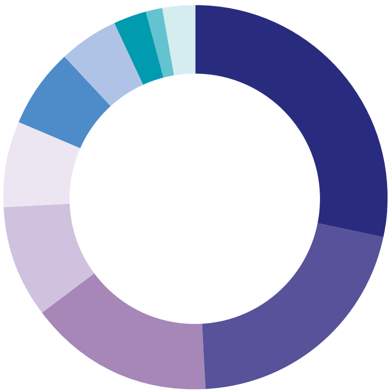
Defined Contribution Scheme funds (whether for clergy AVCs or for the CAPF DC) are invested with Legal & General. The responsible investment characteristics of the funds are reported separately by LGIM, whereas this report focuses primarily on stewardship activities for the common investment fund in the past year.

We review the fund selection for DC members on a regular basis, and in 2022 used member perspectives on responsible investment to inform our review of the funds on offer. More information is provided in the schemes' Implementation Statements, contained in the annual report.

The Common Investment Fund

FUNDS UNDER STEWARDSHIP AS AT 31 DECEMBER 2022

We pool most of the individual pension scheme assets for investment purposes. This allows our smaller schemes to access economies of scale, our responsible investment approach and investment opportunities that might not be available to them otherwise. This chart shows how our pooled assets were invested as at the end of 2022, along with our gilt holdings:

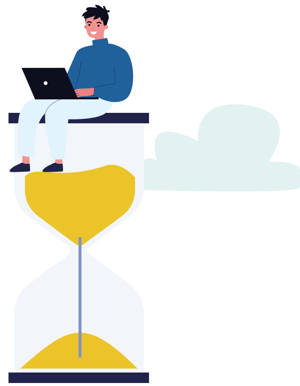


Public Equities	£829m	Private Debt	£192m
Index-linked Gilts	£599m	Private Equity	£146m
Infrastructure	£454m	Emerging Market Debt	£76m
Property	£276m	Alternative Income	£42m
Corporate Bonds	£211m	Cash	£78m

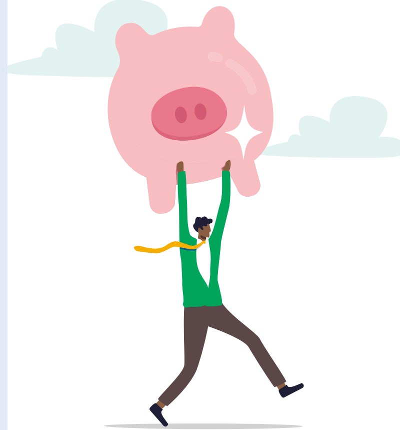
JARGON BUSTER

ASSET CLASSES

Asset classes are types of investment. Their risk/return characteristics differ, and each plays a different role in the portfolio. Some are chosen because the investments are likely to grow over time (accepting a certain level of risk), and others because they control for particular risks. Index linked gilts, for example, help to control the fund's exposure to inflation and interest rate risk, while "alternative income" is a fund that invests in asset managers. Including a diverse range of investments in the portfolio is another way trustees can control risk and ensure that pensions payments continue.



7.6%
Annualised returns over the last 10 years averaged 7.6%



100%+
Our largest scheme, CEFPS, is now more than 100% funded

£3.2bn
The total value of assets in our care at the end of 2022[1]

COMMON INVESTMENT FUND, GILTS & LDI RETURNS TO 31 DECEMBER 2022

	3 months	1 Yr	3 Yrs	5 Yrs	10 Yrs
% return as at 31 December 2022	-1.1	-13.2	2.3	3.8	7.6

1. This includes assets in the common investment fund and individual scheme matching assets, plus two insurance policies relating to CWPF scheme liabilities, clergy AVCs and DC investments, which are held outside the common investment fund (and not included in the calculations of headline returns).

Key highlights from 2022

Our actions on behalf of our members

WE ARE AN ACTIVE INVESTOR

21,950
Total ballots voted (**96.56%** eligible ballots voted). We dissented from management recommendations on **17.11%** of votes

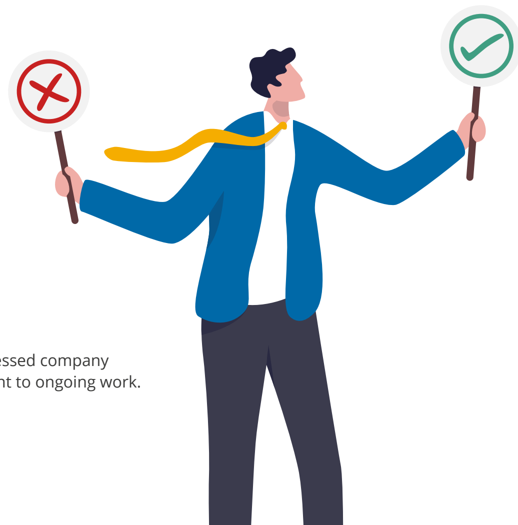
518
Engagements with publicly listed companies, including engagements on mining safety, climate change and fair pay. **36** engagements with our asset managers[1]

Cast our vote on
96.5%
of eligible ballots

We supported
65.5%
of shareholder resolutions

Voted against management on
69.45%
of Say on Pay votes

554
Companies excluded on the basis of our ethical investment screens, and restrictions based on the escalation of engagement/stewardship review. **87** more companies were restricted than in 2021



1. These engagement figures do not include engagements conducted in the routine course of our collaborative initiatives. For example, before TPI releases a climate assessment it consults with the assessed company to ensure that the assessment is accurate. The Net Zero Oil and Gas standard is being piloted with five European oil and gas companies, which has involved a series of engagements and a commitment to ongoing work.

Key highlights from 2022 continued

A LEADER IN MAJOR GLOBAL INITIATIVES TO DRIVE REAL WORLD CHANGE

In 2022:

1

As Chair of TPI we established the TPI Global Climate Transition Centre at the London School of Economics as a dedicated multimillion pound funded international research centre on climate

See more on page 18

2

Convened a group of investors to explore climate investing in emerging markets, and published a set of emerging market (EM) transition principles for consultation

See more on page 21

3

Continued to lead global efforts to transform safety across the world's mining industry to prevent disasters from impacting communities and the environment. Hosted a series of investor and expert roundtables on key issues challenging the social licence of the mining sector, in preparation for the January 2023 launch of the Global Investor Commission on Mining 2030

See more on page 27

4

Created and launched a global standard on Responsible Corporate Climate Lobbying with French BNP Paribas and Sweden's fund AP7

See more on page 20

5

Launched the first legal action in Europe on climate grounds against VW related to their rejection of our shareholder resolution on good governance of their corporate lobbying

See more on page 34

6

Hosted an asset owner summit on executive pay, to which FTSE 100 remuneration committee chairs were invited. Began a process to develop a tool on fair pay

See more on page 26

7

Led the development of the first framework to assess sovereign debt on climate criteria. Consultation on methodology to be launched in January 2023

See more on page 23

8

Led the final phase of the development of a global standard for the oil and gas (O&G) sector following a pilot of five European O&G majors. Standard developed with support of TPI and through the Institutional Investors Group on Climate Change to be released in Q2 2023

See more on page 17

9

Russian disinvestments
Publicly challenged companies on their approach to Russia and disclosed the steps we had taken

See more on page 25

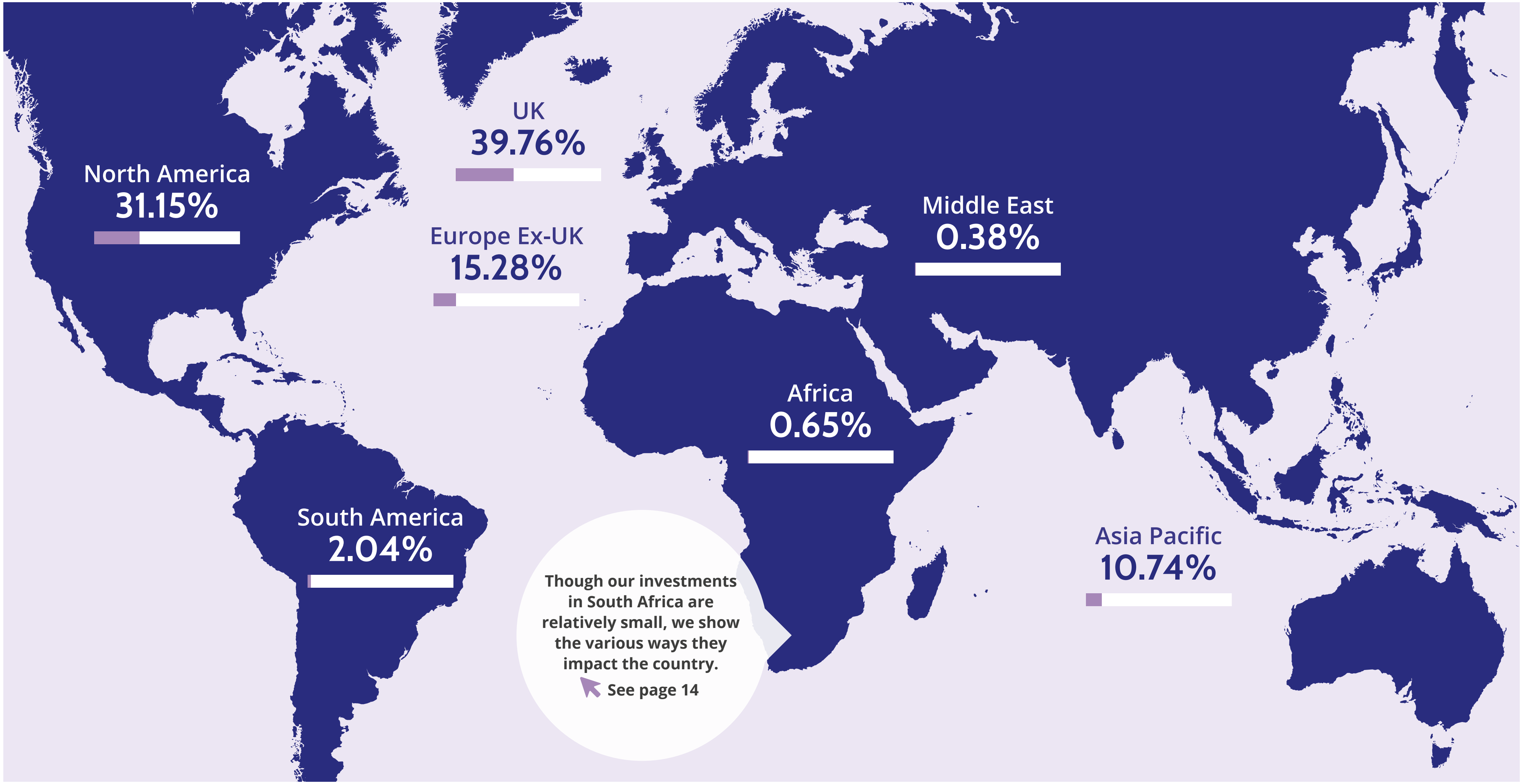
10

Supported a commitment at COP15 aiming to end deforestation, resulting in a new deforestation policy

See more on page 22

Map of investments

This map shows the geographical distribution of the Common Fund's investments, across both public and private markets, as at 31 December 2022



Our approach to responsible investment

We believe that stewardship is integral to being a responsible investor, both financially and ethically. It is directly linked to the risk/return profile of our investments and to our responsibilities as part of the Church of England

Effective stewardship requires

Reliable data and good internal systems, capacity and integration

Leadership

A willingness to speak out

Setting demanding policies and best practice standards

A commitment to developing long-term partnerships and collaborations

Our approach to responsible investment

Our approach is enshrined in the Board's Investment Principles and Beliefs (see CofE.io/InvestmentPrinciples). Effective stewardship requires not only reliable data and good internal systems, capacity and integration, but also leadership, a willingness to speak out and set demanding policies and best practice standards, and a commitment to developing and supporting long-term partnerships and collaborations.

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

Q: Why does responsible investment matter?

A: The Pensions Board operates to the fiduciary duties set out in legislation and regulation, including considering the financial, non-financial and systemic risks (including climate change) to our ability to pay pensions. For example, we know through climate scenario analysis and stress testing that a delayed and disorderly climate transition negatively impacts our investments.

All our asset managers need to be aware of and have the capacity to act on environmental, social and governance risks, so it is part of the everyday business of selecting investments, and not a separate cost. To ignore environmental, social and governance risks is to disadvantage significantly our chances of achieving the best possible long-term risk adjusted returns. We believe investing responsibly is integral to our aim of achieving a long-term sustainable return on the Board's investments. Our trustees keep this continually under review.

Our approach to responsible investment continued

ETHICAL APPROACH

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

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

TACKLING SYSTEMIC CHALLENGES

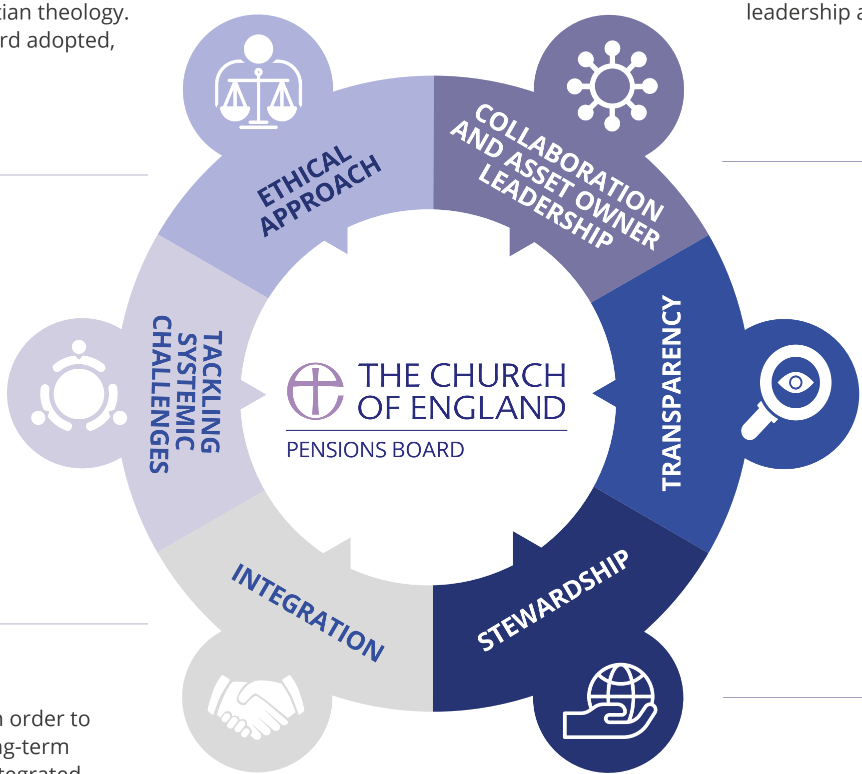
Our investment time horizon is measured in decades rather than quarters, and we recognise that certain issues pose systemic challenges to our investments and the world our members will retire into. We therefore prioritise engagement on cross-cutting issues, such as with climate change and with extractive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

See more on pages 13 and 27

INTEGRATION

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

See more on pages 30, 35 and 51



COLLABORATION AND ASSET OWNER LEADERSHIP

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

See more on pages 16, 26 and 39

TRANSPARENCY

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

See more on pages 31, 34 and 44

STEWARDSHIP

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

See more from page 29

Systemic and impactful stewardship

Q: Why is the Pensions Board committed to 'impactful stewardship'?

A: Because it's in our members' interests, is consistent with our ethical approach to investing and is ultimately about driving positive outcomes to societies and the environment, on which our investments depend.

Using our voice and influence

At its heart, stewardship describes the tools that help us influence companies and managers in our portfolio. These include exercising our voting rights, challenging companies to improve and influencing the wider financial ecosystem to improve its approach to sustainability.

Escalation

Our aim is to drive outcomes in the real economy and we're willing to escalate our concerns from engagement and voting to direct interaction with boards, and ultimately disinvestment. In 2022, after several unsuccessful attempts to file a shareholder resolution on climate lobbying at VW, we began court proceedings in Germany seeking to ensure minority shareholders have the right to table resolutions.

Q: Do you have a specific goal for your stewardship strategy?

A: Yes, to improve the risk-adjusted return of our investments with a suitably long-term time horizon, and to ensure that through our investments we are not harming people or planet. The Board takes a high-level perspective often referred to as 'systemic stewardship' which recognises that systemic risks to the global economy, like climate change and biodiversity loss, will have an impact on our portfolio over the long term. Because of this we have an interest in working to address these huge challenges for our members. Though these are challenging topics, their importance and our position in the investment chain as an asset owner means that we have an opportunity to set the agenda.

Systemic stewardship

Many of the projects and initiatives outlined in this report bear the hallmarks of systemic stewardship. For example, we are bringing influence to bear across entire sectors (in addition to individual companies), working to improve climate lobbying (which will have a knock-on effect on regulation around the world) and creating publicly accessible tools that other investors, banks, insurers and individuals can use in their own decision-making.

Q: Is stewardship effective?

A: It can be, though we should be very wary of 'greenwashing'. It is clear that companies have changed certain policies and practices as a result of stewardship.

Change in the mining sector

A significant proportion (70% by market capitalisation) of the sector has committed to or is reviewing (with a view to commitment) the Global Industry Standard, which we co-created with the UN Environment Programme and industry. This involves committing to make new disclosures and to audit best practices.

We are also working with these independent global partners to build an institute overseeing audit process, giving investors and stakeholders confidence that best practice is applied and improvements are made.

In addition, substantial changes have been made at the company level. For example, one portfolio company announced $500m of planned works to ensure the safety of its tailings facility, securing its future.

OUR STEWARDSHIP IN ACTION

A spotlight on activities in South Africa

When looking at one country it is possible to see the range and depth of our investment stewardship

PRIVATE MARKET INVESTMENT

Through a private markets manager that is focused on sustainability, we are invested in a company that operates in South Africa. Andela trains, recruits and places technology experts from around the world.

INTERNATIONAL COMPANIES OPERATING IN SOUTH AFRICA

11 international companies with more than 10% revenue from operations in South Africa. We used our votes (29 ballots) to improve **modern slavery** disclosure, encourage greater **diversity** on boards, raise **concerns about high pay** and encourage **audit and director independence**.

ENGAGEMENT: GAS AS PART OF THE ENERGY TRANSITION

Engaged directly with Shell and South Africa's Climate Taskforce in relation to the impact of proposed exploration and development of a gas field on the coast of South Africa. The development has not gone ahead.

COURAGEOUS CONVERSATIONS

Advised the Institute for Committed Action in South Africa, which supports His Grace Archbishop Thabo Makgoba, to lead "Courageous Conversations" with the CEOs of mining companies, trade union leaders, civil society and community leaders, and government ministers to build a shared vision for the mining industry in South Africa.

SOUTH AFRICAN LISTED COMPANIES

Voted on three South African listed companies.

46 ballots voted.

We voted seven times against management's recommendations: six votes on executive remuneration (including voting against the re-election of one remuneration committee chair) and once in relation to director independence.

TAILINGS SAFETY

After the deadly tailings dam failure at Jagersfontein on 11 September 2022, we issued a renewed call for improved standards at legacy sites, and further innovation on monitoring and rehabilitation.

SUPPORTING EMERGING MARKETS

Led an initiative of UK pension funds to explore how we can support the energy transition in economies such as South Africa through our corporate debt allocations and our sovereign bond assessments.

SOVEREIGN DEBT

We hold some investment in South Africa's Sovereign Debt through our Emerging Markets Sovereign Debt mandate.

"The Church of England Pensions Board are leading global initiatives of investors aimed at achieving real world change in the practice and operation of companies and of key industrial sectors such as mining. Through their leadership and collaboration and by working closely with key stakeholders they are able to impact the environment and communities for the Common Good."

His Grace, Archbishop Thabo Makgoba, Archbishop of Cape Town

Investing for a sustainable world

Systemic challenges like climate change require systemic responses. The Board uses all levers at its disposal to increase the pace of change

In 2022,
55
companies published climate lobbying reports, 10 for the first time

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Leading a coalition of UK pensions funds representing 18 million members with assets of
£400bn
collaborating to support climate transition in emerging markets

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23%
of companies assessed by TPI will be aligned with 1.5°C by 2025, falling to 19% by 2050

How the Board drives change on climate

A systemic challenge like climate change requires a systemic response. Our comprehensive approach uses all the levers available to us to establish global best practice standards, create transparent investor tools and investment frameworks, and engage with public policy to ensure there is the enabling regulatory environment to achieve the goals of the Paris Climate Agreement.

Strategy	Pensions Board Intervention	Page/URL	Relevance to the fund/scope
STEP 1 Understand the issue, ethical framing and financial relevance to the fund	Understand the assets and sectors that face increased risk. Developed a comprehensive ethical investment policy on climate change	**18, 21, 23**	• All investments
STEP 2 Understand the change you want to make and create public asset owner tools to consolidate a common approach, bringing transparency and focused stewardship to track progress	Founded and raised funding for a multimillion pound world leading independent research centre at the London School of Economics Grantham Research Institute: the TPI Global Climate Transition Centre. The TPI provides the data for the global engagement initiative CA100+	**18,19**	• TPI: 599 largest emitters and growing
	Co-lead global initiative to assess government bonds through the ASCOR Project	**23**	• ASCOR: Piloting 25 Sovereign Debt issuers
STEP 3 Set public targets	Public Net Zero Commitment made in January 2021	**42, 43**	• All investments
	Committed to lead robust engagement with fossil fuel companies and to disinvest from those not demonstrably below 2°C by 2023	**19, 20**	• Public markets and debt holdings
STEP 4 Create the investor frameworks to drive targets and aligned approaches across wider investor community	Launched Paris-aligned investor initiative to create a Net Zero Investment Framework (NZIF) that can be used by pension funds and fund managers around the world to guide implementation of net zero goals	**LINK 1**	• Applied to all investments
STEP 5 Engage robustly and with intent	Integration in proxy voting and portfolio screening	**31, 34**	• Public markets and debt
	Filing or publicly support shareholder resolutions to drive greater ambition	**34**	• Shell, VW, Rio Tinto, BHP, Toyota
	Lead prominent engagement within the CA100+ global initiative and be willing to use media to demonstrate progress or otherwise	**34**	• Shell, BMW, Mercedes, Renault, VW
	Where necessary take legal action	**34**	• VW

How the Board drives change on climate continued

Strategy	Pensions Board Intervention	Page/URL	Relevance to the fund/scope
STEP 6 Learning from engagement to develop sector-wide standards to level the playing field (this may require an additional step to also create independent institutions to oversee auditing/compliance with the standard, as we're developing on tailings in the mining sector)	Co-led creation of global standard on Responsible Corporate Climate Lobbying	**20**	• All sectors: primarily CA100+ company cohort
	Led investor process to create the Net Zero Oil and Gas standard	**LINK 2**	• Oil and gas sector
	Leading investor process to create Net Zero Diversified Mining standard Set up the Global Investor Commission on Mining 2030	**LINK 3**	• Mining sector
STEP 7 Engage policy makers to support enabling regulatory environment for companies to achieve targets	• Public policy advocacy through the Institutional Investors Group on Climate Change (IIGCC) • Member of HM Treasury Transition Plan Taskforce • Member of the International Energy Agency Advisory Group	**37**	• Indirectly all companies
	Focus on company influence of public policy through development of and support for good governance (global standard) of industry association and lobbying	**20**	• Robust engagement • In 2022, 55 companies published climate lobbying reports, 10 for the first time • Shareholder resolutions at Toyota, VW, BHP
	Willingness to jointly lobby government alongside most ambitiously committed companies and other actors where appropriate	**23**	• Sovereign debt holdings
STEP 8 Reinforce our approach through our investments mitigating risks, incentivising and realising opportunities	Development of the TPI Global Climate Transition Index with FTSE Russell and TPI to incentivise companies to transition (doubling weighting of investments in most ambitious and excluding companies that do not disclose)	**48**	• All listed investments
	Development of emerging markets approach to support transition through debt financing	**21**	• Emerging market companies and debt issuers (including governments)
STEP 9 Recalibrate and adapt as you learn	Challenging bluntness of revenue screens (EM transition work), need to own whole national level picture of transition	**21**	• Emerging market companies and those operating there
	Challenging asset washing by companies and investors	**LINK 4**	• Global Net Zero Oil and Gas standard
STEP 10 Be transparent on progress	Ongoing reporting and willingness to use media to challenge and comment where necessary	**LINK 5** **LINK 6** **LINK 7**	• Both company specific and sector wide

Transition Pathway Initiative

2022 saw a significant milestone in the development of the Transition Pathway Initiative, which the Board co-founded in 2017 and continues to chair.

Until 2022, TPI operated as an owner-led initiative, with support from two partners, FTSE Russell (data partner) and the London School of Economics Grantham Research Institute on Climate Change and the Environment. TPI itself had no institutional home, and its outputs were essentially a research programme of the Grantham Institute. Due to the success of TPI and the need to rapidly scale the assessment, we secured funding commitments that could create a dedicated Research Centre. This significant change puts TPI on a stronger institutional footing, significantly increases its capacity and research agenda (see right, the depth of analysis across sectors of the economy) and is a testament to the important place that TPI has come to occupy at the forefront of assessing the climate transition.

Transition Pathway Initiative

SUMMARY OF KEY METRICS ON CARBON PERFORMANCE BENCHMARKS ACROSS SECTORS

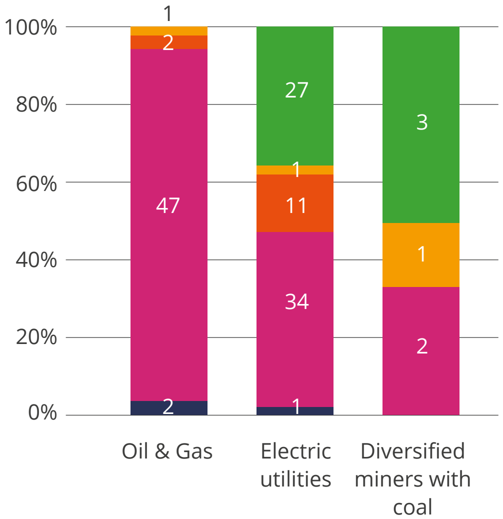
Cluster	Sector	Scope of emissions	Benchmarks	Sectoral Carbon Performance measure
ENERGY	Electricity utilities	1 from owned electricity generation	1. 5 Degrees scenario Below 2 Degrees scenario National Pledges scenario	Carbon intensity of electricity generation
	Oil and gas	1, 2, 3 (cat 11)		Carbon intensity of primary energy supply
CAPITALISATION	Automobiles	3 (cat 11)	2 Degrees (high efficiency) 2 Degrees (avoid shift, improve) Paris Pledges scenario	New vehicle carbon emissions per kilometre
	Airlines	1	1. 5 Degrees scenario Below 2 Degrees scenario International Pledges scenario	Carbon emissions per revenue tonne kilometre
	Shipping	1		Carbon emissions per tonne kilometre
INDUSTRIALS AND MATERIALS	Cement	1	1. 5 Degrees scenario Below 2 Degrees scenario National Pledges scenario	Carbon intenisty of cementitious product
	Diversified mining	1, 2, 3 (cat 10,11)		Carbon emissions per tonne of copper equivalent
	Steel	1, 2		Carbon intensity of crude steel production
	Aluminium	1, 2	Below 2 Degrees scenario 2 Degrees scenario Paris Pledges scenario	Carbon intensity of aluminium production
	Pulp and paper	1, 2		Carbon intensity of pulp, paper and paperboard production

Source: https://www.transitionpathwayinitiative.org/

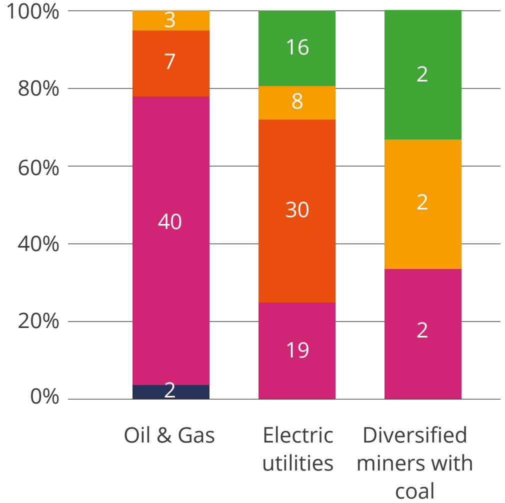
Transition Pathway Initiative continued

CARBON PERFORMANCE OF ENERGY COMPANIES IN 2022

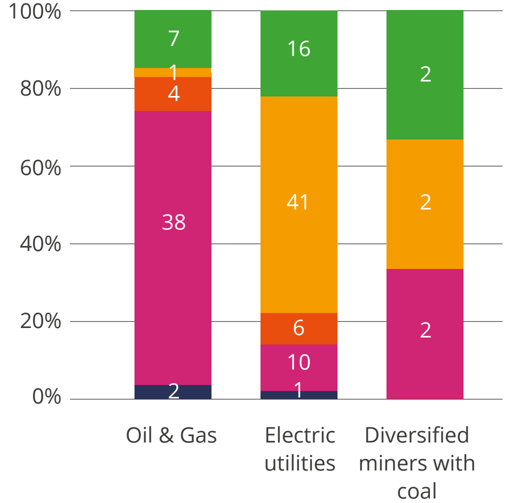
2025 Alignment



2035 Alignment



2050 Alignment



- 1.5 Degrees
- Below 2 Degrees
- National Pledges
- Not Aligned
- No or unsuitable disclosures

Discover more about the TPI Carbon Performance methodology

NO. OF COMPANIES ASSESSED

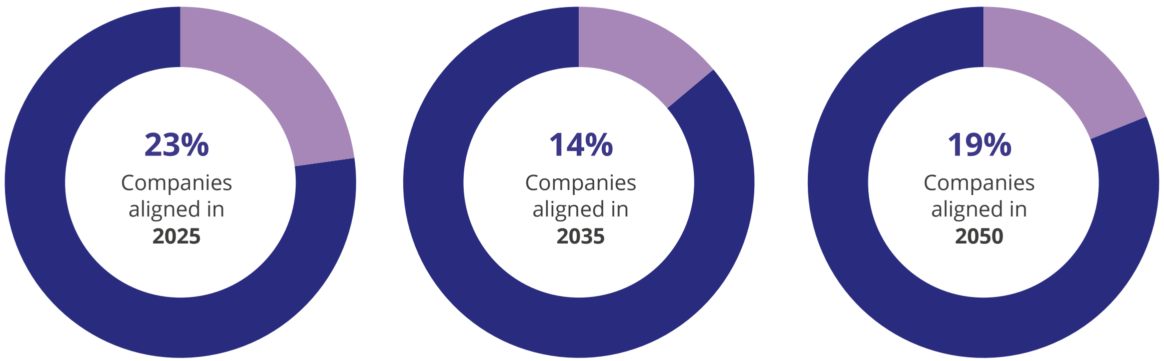
74 Electricity utilities

52 Oil & Gas

6 Diversified miners with coal

ALIGNMENT WITH TPI'S 1.5°C BENCHMARK

TPI measures the alignment of energy companies against sector-specific 1.5°C scenario benchmarks in the short, medium and long run. The share of energy companies aligned with their 1.5°C sector benchmark on any time horizon remains small, though it is growing



Source: TPI open-access online tool and GitHub

Climate lobbying

The Responsible Corporate Climate Lobbying Standard launched in February 2022 with the support of the three co-sponsors to the project and six globe-spanning investor networks (AIGCC, IGCC, ICCR, IIGCC, PRI, SHARE). The indicators will be available on www.climate-lobbying.com and these will be applied in practice for the first time with a pilot assessment of the road transport sector, published in April. The launch generated a strong show of support for the investor commitment to the global standard.

Investors continue to engage to encourage lobbying transparency among high emitting companies, and some progress has been achieved: In 2022, 55 companies published climate lobbying reports, 10 for the first time. This total was up from 44 in 2021, 22 in 2020 and 9 in 2019.

Climate Lobbying has been incorporated into the Climate Action 100+ Net Zero Benchmark, which means that companies in scope will be scrutinised on their lobbying practices by a 700-strong investor coalition with $68trn in AUM. 33.1% of CA100+ companies had published at least one climate lobbying review by year end, so there is work still to be done.

We have previosuly filed shareholder resolutions at BHP and Rio Tinto on this topic and continue to engage to improve lobbying transparency and alignment.

We have been pleased to see some actions resulting from this programme of work. As a result of climate lobbying reviews, Shell and Total have left US-based industry associations.

It is worth noting that the nature of climate lobbying is such that 'real economy' outcomes are indirect, and hard to attribute to individual actors. That said, this work will be worthwhile. Regulators are so important to the delivery of our climate goals (see page 16) that we believe shining a light on misaligned lobbying conducted by, or on behalf of, corporations will create the conditions for, and ultimately will help deliver, the transition to a low carbon economy. We are also aiming to assess the wider policy impact of changed lobbying behaviour.


THE WALL STREET JOURNAL.

SUSTAINABLE BUSINESS

Investors Dial Up Pressure Over Companies' Climate Lobbying

Firms are facing more shareholder resolutions over lobbying activity that clashes with their stated environmental goals

Our work on climate lobbying has generated significant press interest this year

DOWNLOADS

Investor Statement in support of Responsible Climate Lobbying

The 14 indicators of responsible climate lobbying

Launch press release

> This is another important step in raising the bar for climate lobbying governance and transparency, and in supporting the Paris climate goal.
>
> A FTSE 100 company

Emerging market climate investment principles

On 12 May 2022, a group of UK pension funds (representing 18 million members with assets of £400bn), chaired by the Church of England Pensions Board announced a commitment to collaborate to support the transition in emerging markets (EM). As diversified funds, the group already invests across asset classes in EM, but we wanted to ensure that we have a credible intentional basis to practically support the transition in emerging economies, in line with our fiduciary responsibility to provide pensions.

Following a series of roundtables, including two with the UK pensions minister, the investor group published a consultation on EM transition investment principles, which remains open for consultation here.

EMERGING MARKET JUST TRANSITION PRINCIPLES

The following principles were published for consultation in 2022

Challenge
Current approaches to the global climate transition do not make sufficient allowances for a differentiated pace of change and the varying level of policy and institutional support across EM, nor do they enable a holistic approach to supporting a just transition at an economy-wide level.

Guiding Principle
Advocacy: advocate for a fair transition in emerging markets, specifically:
- Support real world emissions reductions (brown to green)
- Recognise vulnerability to climate impacts
- Support for economic development and equity
- Increase transparency
- Engagement

Challenge
Existing investor frameworks for the global climate transition do not cover a large part of the EM sovereign and corporate universe. They often lack use of national and regional pathways and lack understanding of nationally defined contributions (NDCs) in associated policies, tools and metrics.

Guiding Principle
Policies and implementation: align our policies and approaches to understand and enable a just transition in emerging markets
- Review existing approaches incorporating fossil fuel transition
- Evolve investor frameworks
- Need for national and regional pathways
- Support nationally determined contributions (NDCs)
- Revisit implied temperature rise (ITR) metrics to ensure they do not penalise EM

Challenge
There is an unequivocal role for more developed market funding from both public and private finance. While developed market investors continue to invest in EM navigating political, legal and governance risks, building local expertise and accessing opportunities, there is still a significant financing shortfall and an urgent need to support the EM transition.

Guiding Principle
De-risking investments and capital allocation: practically work to de-risk investments in support of intentional allocations within and across asset classes
- Need for a flexible approach
- De-risking investments
- Just Energy Transition Partnerships (JETPs)

Click here for the full version of the Just Transition Principles

Deforestation

In 2021 the Board supported a commitment at COP15 aiming to end deforestation and we can report that a new standalone deforestation policy has been published (here). The Board has undertaken an initial portfolio assessment based on the Forest 500 data set, and has joined a collaborative engagement on deforestation, more details of which will be reported next year.

The Board's 2022 portfolio analysis showed 87 companies on Forest 500's focus list, with varying degrees of exposure to the supply, processing and sale of beef, leather, palm oil, pulp, soy and timber.

87

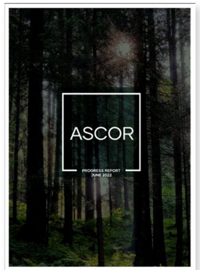
Companies on Forest 500's focus list, according to the Board's 2022 portfolio analysis

Assessing Sovereign Climate Opportunities and Risks (ASCOR)

Sovereign wealth funds form a significant part of many investors' portfolios, yet investor stewardship rarely focuses on this asset class.

In 2022, ASCOR, which is co-chaired by the BT Pension Scheme and the Church of England Pensions Board, and supported by one of the Board's asset managers that specialises in sovereign debt investments, launched its first progress report (available here). ASCOR is a project aimed at creating a tool to give investors a common understanding of sovereign exposure to climate risk and of how governments plan to transition to a low carbon economy. As we have seen with the Transition Pathway Initiative, assessment tools are extremely helpful in individual engagements, but can also create a common 'ask' and basis on which many different financial actors can progress their stewardship.

Significant progress has been achieved, including engagement with relevant ministries around the world, and the first pilot round of 20 country assessments will be published in 2023.



ASCOR's Progress Report 2022

> **The ASCOR project aims to fill a data gap on sovereign climate change, intending to provide investors with decision-useful information.**
>
> Claudia Gollmeier, Managing Director (Singapore) & Senior Investment Officer, Colchester Global Investors and Co-Chair of ASCOR's Climate Funding Working Group

RELEVANT DIMENSIONS OF ASCOR – INVESTOR INTERVIEW FINDINGS

Investing for a just world

From divesting out of Russian firms to challenging a broken executive pay system, the Board is committed to developing a fairer world

52
substantive responses on the cost of living crisis

2
FTSE 100 Remuneration Committee Chairs attended our investor summit on fair pay

1,862
facilities reported in the Global Tailings Portal

70%
of the mining industry by market capitalisation has committed to implementing or are reviewing the Global Industry Standard on Tailings Management

Responsibility in a time of conflict

Russia's invasion of Ukraine has cast a long shadow over 2022. It has caused untold human misery in Ukraine itself. Across the world, it has created food and energy shortages, driving painful inflation and economic uncertainty. We did not hold any Russian sovereign debt in our funds due to an existing ethical exclusion and we acted promptly on the morning of the invasion to exit from the very few Russian companies in which we were invested.

CASE STUDY

TOTALENERGIES

We have maintained these restrictions, and also engaged TotalEnergies on their continued operations in Russia, writing a public letter on 15 March 2022 to TotalEnergies' Chair and Chief Executive. TotalEnergies has reported that it continued to withdraw from Russia over 2022, including an Arctic LNG project, and will no longer provide capital for new projects in Russia (see also Yale School of Management's assessment). Engagement with the company is ongoing.

1,000

According to Yale University, over 1,000 companies have publicly announced they are curtailing operations in Russia, beyond the bare minimum legally required by international sanctions

Challenging a broken executive pay system

In December 2022, we convened a summit of the leading UK pension funds, investment managers, TUC representatives, academics and government regulators to review the current state of executive corporate pay. The summit explored the challenges of high executive pay from different perspectives, considering issues of fairness, trust, accountability, inequity and stewardship.

In the UK and other markets, shareholders are often asked to vote on executive remuneration ahead of any award, but this advisory vote can be disregarded by boards. The summit considered the role investors should play in reforming the executive pay system, which can so often act to both enable and protect excess. The discussion took place against the backdrop of the worst cost of living crisis for a generation, and just ahead of the 2023 AGM season, when shareholders are asked to vote on remuneration reports or to appoint the Chairs of remuneration committees. As a result, and to advance this work, we have formed an asset owner leadership group. We are developing an Executive Pay Fairness Assessment framework that will form the basis for an investor tool intended to reframe the way investors engage with executive pay. There will be further reporting on this in 2023.

ENGAGING ON FAIR PAY – FROM POLICY TO SYSTEMIC INTERVENTION

Policy	Incorporation/ Integration	Impact Engagement	Impact Engagement
On Executive Remuneration (advised by the Ethical Investment Advisory Group) →	**Regular Proxy Voting against excessive pay** (see page 31 and previous Stewardship Reports) →	**Convening investors, FTSE 100 Remuneration Committee Chairs and leading experts to openly assess current system** →	**Developing (from 2023) a publicly accessible Fair Pay Tool alongside other Investors and a leading think tank. Developing policy expectations and recommendations**

COST OF LIVING ENGAGEMENT

In October 2022, the Pensions Board, in collaboration with the Church Investors' Group, wrote to FTSE 100 companies to encourage them to consider and respond on changes to the cost of living. 58 of the 100 companies have responded, of which 52 were substantive responses. The companies that responded collectively employ 3.5 million people. The engagement continues into 2023.

Driving systemic change in the mining sector

2017

- After 18 months of policy development the EIAG published: Extractive Industries Policy & Advice
- Ethical Investment Policy references the need for scrutiny of tailings storage facilities

More information

2018

- Initial engagement with the mining industry association, International Council on Mining and Metals
- Developed an in-house portfolio assessment tool for the mining sector that is updated annually

2019

- 25 January, Brumadinho disaster resulting in 272 people killed
- Public intervention one week after the disaster together with the Swedish Public Pension Funds to call for independent audits and transparency
- Convened (alongside the Swedish AP Funds) monthly investor roundtables committed to address:
  1. Trend of catastrophic dam failures
  2. Lack of a global industry standard
  3. Unknown number of tailings dams and no global record
  4. No disclosure standard
  5. Waste treated as an externality and a systemic risk to the industry
- Urgent disclosure request made to companies in extractive industries. Requested a response within 45 days signed by Chair and CEO

Response

45 out of the 50 largest mining companies responded.

87% of the mining industry by market capitalisation responded

114 companies disclosed details – facility by facility

2019-2020

- 110 investors with over $25trn in AUM backed the work of the Board
- The Board partnered with GRID Arendal and United Nations Environment Programme to create the first data Portal on tailings dams to improve transparency, standardisation & accountability of the disclosures (tailing.grida.no)
- Details on 1,862 facilities are provided publicly in one place as a common good tool, used by investors, industry and civil society
- Engagement to improve disclosure continues
- Partnership formed between ICMM, UNEP and PRI (represented by the Church of England Pensions Board and the Swedish AP Funds) to develop a Global Industry Standard on Tailings Management, under an independent chair (Prof Bruno Oberle) and an independent Advisory Panel
- Funding raised for pilot test using satellites to find tailings facilities, supported by UK Government's UK Satellite Catapult

2020-2021

- The Global Industry Standard on Tailings Management (GISTM) is published in August 2020
- 2021, investors write to all the Chairs and CEOs of mining industry to encourage the adoption of the GISTM
- March 2021, Nature Journal "Scientific Reports" publishes an open access peer reviewed article. Tailings facility disclosures reveal stability risks. Pensions Board staff are co-authors
- Engagement initiative launched to target companies to commit to implement the Standard

2021-2022

- 129 companies (70% of the mining industry by market capitalisation) commit to implementing or are reviewing the GISTM; 113 companies have not responded or have not committed to focus of engagement
- January 2022, the Pensions Board announces that it will vote against the Chairs of mining companies that do not commit to implementing the GISTM, or do not respond to our request
- 2022 (ongoing), company responses published on the Church of England Pensions Board website
- Pensions Board and Swedish AP Funds (representing PRI) partner with UNEP to establish an independent Global Tailings Management Institute, convene an international and multistakeholder Advisory Panel, and resource UNEP technical capacity to lead process
- Issued a statement on the need to address legacy facilities after the fatal Jagersfontein failure in South Africa, September 2022

The UK Government's response to a recent consultation highlighted our work on the Investor Mining and Tailings Safety Initiative as among "a minority of ... excellent examples of stewardship activity on social factors which have driven real world change"

NEXT STEPS

1. Continue to encourage and support companies to implement the Global Standard and become signatories to the Institute
2. Together with the UN Launch the Global Tailings Management Institute
3. Work with governments to address outstanding legacy issues of tailings dams that have passed from company ownership so that they can be found, mapped and risk assessed

Ensuring multistakeholder views are heard in the sector

During 2022, the Board, in partnership with the United Nations Environment Programme, progressed our plan to create an independent Global Tailings Management Institute that will oversee the audit of mining companies around the world to ensure they are in compliance with the Global Industry Standard on Tailings Management. This will bring transparency and rigour to the application of the Standard and ensure the safety of tailings facilities.

To ensure the Institute would carry the confidence of all those with an interest in mining, the Board together with the UN convened a multistakeholder International Advisory Panel, which met throughout 2022. The panel were tasked with providing recommendations to us for the makeup of the Board, key technical elements and remit of the Institute. Once received in January 2023 the Board and UN would move to establish the Institute based upon this advice.

Members of the Advisory Panel are:

- Jan Morrill, Earthworks
- Victoria (Vicky) Corpuz, Tebtebba Foundation
- Peter Kindt, ING
- Günter Becker, Insurance Representative (formerly Munich RE)
- Rebecca Campbell, White & Case
- Glen Mpufane, IndustriALL
- Andressa Lanchotti, State Prosecutor
- Prof Andy Fourie, University of Western Australia
- Antonia Mihaylova, International Union for Conservation of Nature (IUCN)
- Paul Bateman, International Cyanide Management Institute
- Tamara Johndrow, Freeport
- Johan Boshoff, Gold Fields
- Prof Elaine Baker, University of Sydney/GRID Arendal
- Angelica Andrade, Affected Community Representation
- David Cooling, Consultant to the GTMI Organising Committee

We are extremely grateful to these volunteers for the diligence and care they have taken in supporting the establishment of the Institute. In 2023, the Pensions Board and UNEP continue to work to establish the Global Tailings Management Institute, institution-building using multistakeholder input to drive safety standards across the mining sector.

> UNEP is delighted to see this multi-stakeholder panel of experts that will ensure that we have a better and stronger Institute as a result. We recognise the Institute needs to be practical to support wide adoption of the Global Tailings Standard. We also recognise that communities and those most impacted by tailings or that live with tailings facilities in their communities need to have confidence in the work of the Institute.

Ligia Noronha, Head of UNEP New York Office

Good governance

The Board outlines its 'joined-up' approach to voting, screening and risk transfer activities, and the importance of asset manager engagement

We supported
65.5%
of shareholder resolutions

21,950
votes, voted against management 17.11% of the time

Voted against management on
69.45%
of Say on Pay votes

Votes cast on
96.5%
of eligible ballots

Good governance

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

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

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

This section shows how we are applying a 'joined up approach' not only to voting and screening, but also to our risk transfer activities (see Bulk Annuity section), the way we are working to improve shareholder rights in Germany and the way we have engaged with policy makers.

“I really like that the Pensions Board is an active voter in the companies it invests in – shaping how companies act, and influencing their moral and social responsibilities.”

Cameron – scheme member

ENGAGING OUR MANAGERS

The Pensions Board regularly and routinely meets with our asset managers, and includes stewardship as a standing agenda item. Both RI and investment professionals are involved in the selection, appointment and monitoring of asset managers. During 2022, the team met with our managers 36 times, the frequency of meetings is matched to the underlying strategy. Topics covered included individual investments and ESG capacity (staffing and systems). We engaged with all of our asset managers on the Asset Owner Diversity Charter, and increased our in-house ESG assessment coverage from 70% of our managers in 2021 to 100% in 2022.

Engaging managers on diversity

In 2022, we engaged all of our asset managers under the Asset Owner Diversity Charter (AODC) programme. All managers responded, 18 out of 20 completing the AODC questionnaire. The remaining two managers supplied relevant diversity disclosures. The responses were reviewed and scored, and managers were engaged on the topic during the year. This is an annual assessment, and we expect to see improvement over time.

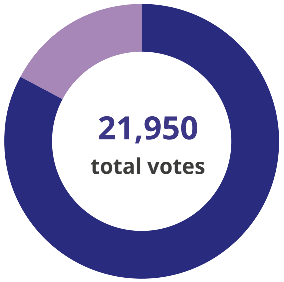
This assessment is updated quarterly and presented to the Investment Committee alongside the funds' performance, climate metrics (where available) and commitments. We also encourage our asset managers to engage alongside us, and are pleased to be working with many of our asset managers through TPI, our sovereign debt manager Colchester on a sovereign assessment tool (ASCOR) and alongside many of our private market managers in the Institutional Investors Group on Climate Change.

We plan on developing the way we report publicly on our asset manager engagement in 2023.

Proxy voting

We exercise our right to vote at the AGMs of companies we invest in, and apply a bespoke set of policies. In 2022, we continued to use voting as a stewardship strategy, to send messages on pay and gender diversity, among other topics.

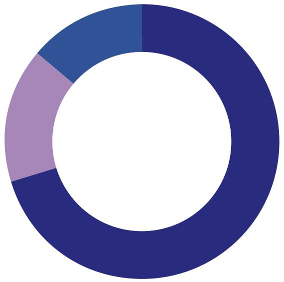
STEWARDSHIP DATA OVERVIEW



96.56% Percentage voted

17.11% Dissent/withhold against management

DISSENT

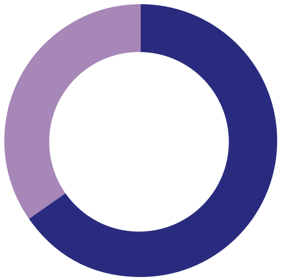


69.45% Say on Pay (management resolution)

15.78% Capitalisation

13.44% Director elections

SHAREHOLDER PROPOSALS



725 Shareholder proposals voted

65.55% Shareholder proposals support

MANAGEMENT RESOLUTIONS – DISSENT BY RESOLUTION CATEGORY

Resolution category	No. of votable resolutions voted	% of dissent
Anti-takeover related	158	8.22%
Capitalisation	1,394	15.78%
Compensation	2,547	48.37%
Directors related	13,048	16.73%
Miscellaneous	55	18.18%
Environmental	120	59.16%
Strategic transactions	114	14.91%

JARGON BUSTER

DISSENT VOTES

When it comes to the AGM of a publicly listed company, management teams will hope that investors will support their recommendations. Voting against management, either by abstaining or voting against the resolution, is one of the core stewardship rights that asset owners possess. If we have a concern at a particular company, we may choose to use our vote to identify the board member with relevant responsibilities, and vote against their re-election. In other cases we may file our own 'shareholder resolution' which is put to the shareholder vote. The fact that we voted against 48% of all compensation votes around the world is an indication that we judge about half of the most senior executives at companies we invest in either have excessive, unfair, or misaligned executive pay structures or awards.

Proxy voting continued

STEWARDSHIP CASE STUDY

NEXT – EXECUTIVE PAY (UK)

Ballot: Approve the Remuneration Report

OUR VOTE: Against

RATIONALE: We voted against management's recommendation to approve their remuneration report. We voted on the basis of our remuneration policy, noting in particular that non-financial as well as financial performance metrics should be incorporated into variable remuneration schemes, and that these non-financial metrics should be disclosed. We also noted (in a Radio 4 interview with Adam Matthews) that Next are not yet a living wage accredited employer, and had not yet paid back COVID-related loans to the Government

THE OUTCOME: The ballot achieved 7.5% dissent from shareholders

FOLLOW UP: As a constituent of the FTSE 100, Next's remuneration committee Chair was invited to the Roundtable described below

STEWARDSHIP CASE STUDY

ASTRAZENECA – MANAGEMENT RESOLUTION – TOP HOLDING – EXECUTIVE PAY

BALLOT: Approve the Remuneration Report

RATIONALE: We did not support the management proposal filed by AstraZeneca requesting the approval of their remuneration report. This is because the remuneration of the CEO including the annual bonus scheme was in excess of the standard set out in our voting policy

THE OUTCOME: 7.8% of shareholders voted against this resolution. Although this may seem like a disappointingly small rebellion, often companies win votes with a near 100% majority. So, while still disappointing, the result did reflect some significant opposition, albeit insufficient to prevent the policy being agreed

FOLLOW UP: As a constituent of the FTSE 100, Next's remuneration committee Chair was invited to the Roundtable described below

ROUNDTABLE ON EXECUTIVE PAY

Frustrated by the continuing growth in excessive executive pay and following an intervention on the Today Programme on Radio 4, the Board convened an Asset Owner Roundtable on executive pay to challenge what we described as a "broken system, based upon complexity to enable excess". The Board invited the chairs of Remuneration Committees of FTSE 100 companies to join the discussion. The discussion at this roundtable highlighted significant concerns about remuneration in many of the public companies we invest in. While we recognise it is reasonable for senior executives to be rewarded fairly for their roles, and for good performance to be recognised, unfair, excessive, or misaligned incentives present investment risks, and may be indicative of wider governance failures. The roundtable has resulted in a series of further steps we are taking to engage policy makers, develop a transparent Executive Pay Fairness Tool and to work collaboratively with other investors to drive change on this agenda over the coming year.

Proxy voting continued

STEWARDSHIP CASE STUDY

JPMORGAN – TOP 50 HOLDING – EXECUTIVE PAY (US)

BALLOT: Advisory vote to ratify executive officers' compensation

OUR VOTE: Against

RATIONALE: We did not support management's proposal to approve the proposed remuneration of the JPMorgan CEO, on the basis that the package breached local good practice and the bonus scheme awarded the CEO an excessive multiple of salary (see our remuneration policy here). The CEO's compensation included a $51m stock option award, intended to incentivise his retention as CEO for five years

THE OUTCOME: 69% of shareholders rejected management's recommendation. This striking level of dissent does not automatically result in any outcome, other than to highlight the misalignment between management and shareholders, given that this is an "advisory" vote

FOLLOW UP: Our ongoing executive pay project (see page 26) will begin in the UK market, but we are exploring ways to extend our approach to other markets, including the US

STEWARDSHIP CASE STUDY

OCADO GROUP PLC – MANAGEMENT RESOLUTION – FTSE 100 – CORPORATE GOVERNANCE

BALLOT: Re-elect Directors

OUR VOTE: Against the reelection of seven out of eight board directors

RATIONALE: We voted against re-election of all members of the nominations committee (those that had served on the committee since the previous AGM), because the Board only comprises 23% female members. We have previously voted against the chair of the committee, without seeing improvement. 23% is well below the average for FTSE 100 companies and is below the 40% threshold the Pensions Board expects for UK companies we invest in

OUTCOME: All directors were re-elected, with between 2.1% and 6.8% dissent from shareholders

FOLLOW UP: We will keep Ocado Group under review. On gender diversity more broadly, the Board continues to act to improve standards in the boardroom and industry through the Asset Owner Diversity Charter, of which we were a founding signatory. The charter "is a commitment by firms to work together to build an industry which represents a more balanced and fair representation of diverse societies. "The charter reflects both the Board and other "asset owners' aspirations to see diversity balance at all levels across financial firms". A balanced workforce is good for business, consumers, profitability and culture

STEWARDSHIP CASE STUDY

J SAINSBURY PLC – SHAREHOLDER RESOLUTION – FTSE 100 – CORPORATE GOVERNANCE

BALLOT: Shareholder Resolution on Living Wage Accreditation

RATIONALE: We voted in favour of the shareholder resolution coordinated by ShareAction and supported by major asset owners, which requested the company become Living Wage Accredited. The vote was consistent with our long-term support for this standard and our status as an accredited employer, but ultimately determined by our assessment that it would be good for the company's recruitment, morale and retention

OUTCOME: The resolution did not pass but it saw significant levels of support, with 16.7% of shareholders voting in favour of the company becoming Living Wage Accredited

FOLLOW UP: In Autumn 2022 we endorsed a follow-up engagement with Sainsbury's by the Church Investors Group on the cost-of-living crisis. We continue to support the case for paying the Real Living Wage and we believe accreditation would be the mark of leadership among major UK retail brands

Proxy voting continued

CASE STUDY

VW – ESCALATION TO ENHANCE ENGAGEMENT AND PROTECT SHAREHOLDER RIGHTS

In April 2022, Volkswagen AG faced a shareholder proposal from seven European investors led by Sweden's AP7 and the Church of England Pensions Board, which urged the company to explain how its lobbying activities help to address climate risks. However, VW rejected the proposal, and the group of investors have escalated this matter to the German courts, the investors have deployed such litigation related to a climate matter in Europe.

In April 2022, investors tabled an amendment to the company's Articles of Association intended to ensure that future sustainability reporting includes an assessment of their lobbying's impact and alignment with its climate goals. The shareholders' escalation comes after more than three years of dialogue with VW which had not yielded any significant improvement in the company's position.

In addition to AP7 and the Church of England Pensions Board – which first initiated dialogue with VW about the issue of climate lobbying in 2018 – the proposal filing group included Swedish pension funds AP2, AP3 and AP4, plus Denmark's AkademikerPension and asset manager Schroders.

The AGM escalation was also supported by CA100+ engagement lead EOS at Federated Hermes, which were not part of the co-filing group but had engaged actively with Volkswagen on the issue of climate policy engagement for many years. Unfortunately, VW rejected the proposal on the basis that they deemed it beyond the competence of the general meeting: "The Board of Management alone is responsible for deciding on the content of the non-financial report in accordance with the interests of the company."

> **VW is failing to demonstrate that the lobbying undertaken and funded by the company through their industry association memberships is aligned to their own climate goals.**

Adam Matthews, Chief Responsible Investment Officer (CRIO), quoted in October 2022

In October 2022, the Pensions Board, together with the Swedish AP funds and Danish AkademikerPension, announced that legal proceedings had been filed against Volkswagen after it refused repeated attempts to publish the requested information on its corporate climate lobbying activities. The group is represented by German law firm Hausfeld Rechtsanwälte LPP and supported by legal charity Client Earth, in what we believe is the first time investors have started European litigation on a climate-related matter.

Systemic relevance

The court's decision in this case would set a precedent, which is important because this is currently a grey area in German corporate law. Emma Henningsson, Head of Responsible Ownership at Swedish Pension fund AP7 has said: "Success [in this case] would mean more shareholders could contribute to improving the governance of the company. A ruling in favour of investors would improve corporate accountability and transparency for shareholders in German companies."

Meanwhile, we continue our engagement with VW as part of the CA100+ initiative and continue to advocate for lobbying transparency.

Bulk Annuity and ESG

It is not common practice for pension fund trustees to consider the ESG and sustainability credentials of insurers when reviewing potential bulk annuity contracts. This is perhaps because the relationship is not like an asset management arrangement where investments continue to be owned by the Board and are managed by an external asset manager.

A 'bulk annuity' involves the purchase of an insurance contract, with the knowledge that the insurer will protect themselves and match their liabilities by making investments. This subtle difference means that the Board no longer controls the funds. Nonetheless, during a bulk annuity process for a section of one of our schemes in 2022, the trustees reviewed alignment with the Board's stewardship policies and ethical investment approach, including a review of the assets in the insurer's matching portfolio at the time of the buy-in (a kind of bulk annuity). The trustees put ESG/responsible investment conditions on the buy-in process, which the successful insurer (Aviva) met after a process of engagement.

The trustees noted there was scope for bulk annuity providers (insurers) to improve offerings related to ESG and stewardship, not least because our beneficiaries stand to be impacted by climate change, whether the companies contributing to it are owned by the Board or an insurer. We intend to continue to work on this topic in 2023.

JARGON BUSTER

WHAT IS A BULK ANNUITY?

When a pension scheme reaches a certain level of funding, trustees may choose to use assets to buy an insurance policy called a 'bulk annuity' which covers the scheme's liabilities (e.g. future pension payments). This transfers investment risk from the Pensions Board to an insurer, and effectively secures the benefits due to our members.

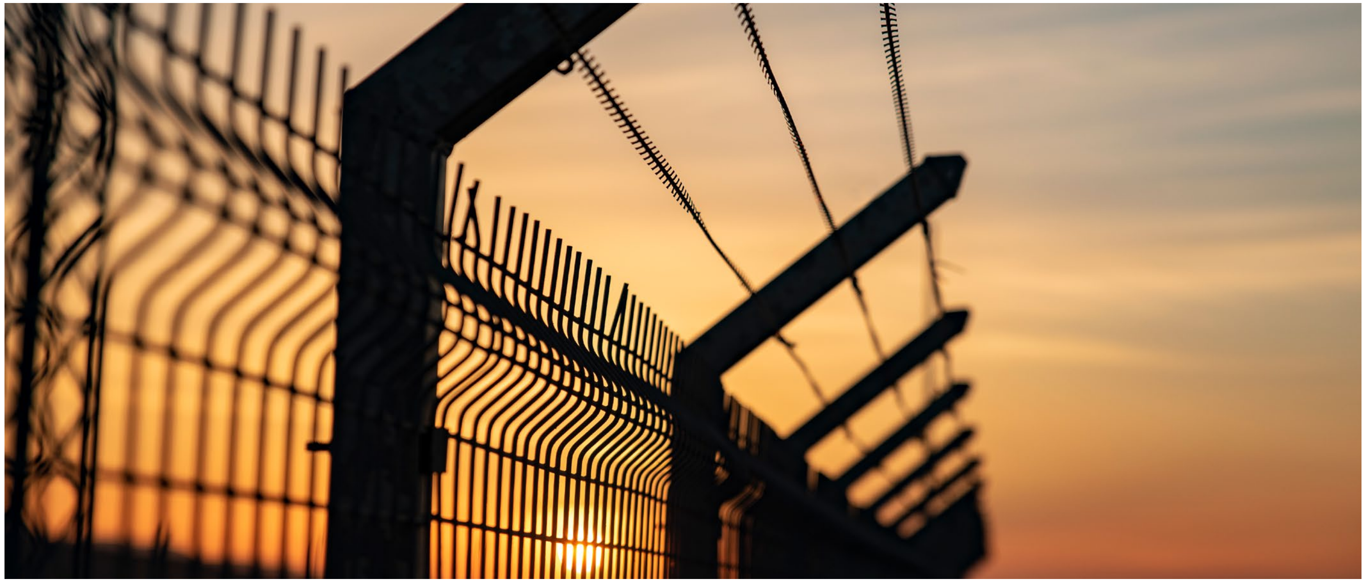
Screening

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.

Every quarter the Board uses a data provider called MSCI to screen an investment universe of approximately 10,000 companies to identify those to be placed on our restricted list. We also rely on Sustainalytics for additional screening on indiscriminate weaponry. In addition to the thematically excluded companies identified by MSCI, the Board also operates an additional exclusion list that is based on the results of engagement and bespoke ethical research. This list of "special" excluded companies is overseen by a screening committee comprised of representatives of the National Investing Bodies of the Church of England.

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.



Screen category	No. of companies restricted
Adult Entertainment	2
Adult Entertainment, Alcohol	1
Alcohol	93
Alcohol, Gambling	1
Cannabis	10
Thermal Coal and Tar Sands	51
Indiscriminate Weaponry	6
Defence	88
Firearms	10
Tobacco	48
Gambling	107
Predatory Lending	20

The list includes companies screened against EIAG ethical investment policies in Q4 2022.

Engaging on public policy

Ensuring we have a public policy environment that supports best practice in responsible investment, and on issues such as climate change, is important to our members. We often feed into the submissions and position statements made by industry bodies, for example those of the Institutional Investors Group on Climate Change, the UK Sustainable Investment and Finance Association (UKSIF), where we work to ensure their lobbying positions are consistent with ours, and our beneficiaries' interests. Indeed, this form of lobbying alignment is behind the requests we have made of large companies, and is behind the Global Climate Lobbying Standard (page 20). We do also occasionally contribute directly to government and industry consultations, and 2022 included two examples.

CASE STUDY

DWP CONSULTATION ON SOCIAL FACTORS

The UK Government's Department for Work and Pensions published their response to a consultation we contributed to on the consideration of social factors by pension schemes.

The Government's response highlighted our work on the Investor Mining and Tailings Safety Initiative as among "a minority of ... excellent examples of stewardship activity on social factors which have driven real world change"[1].

OUTCOME The response concluded by announcing an intention to create a Minister led, cross-departmental taskforce on social factors (TSF) that will work to support the pensions industry to include social factors in their decision-making. The Pensions Board was invited to join this taskforce, and it is due to report in 2023.

1. https://www.gov.uk/government/consultations/consideration-of-social-risks-and-opportunities-by-occupational-pension-schemes/outcome/government-response-consideration-of-social-risks-and-opportunities-by-occupational-pension-schemes

CASE STUDY

INTERNATIONAL SUSTAINABILITY STANDARDS CONSULTATION

The International Sustainability Standards Board (ISSB) ran a consultation in 2022 on their plan to develop a comprehensive global baseline of sustainability disclosures for capital markets.

This hugely promising initiative has the potential to raise disclosure standards, and ensure that high quality, globally comparable sustainability information is available to investors. Our response to the consultation (available here, published in July 2022) raises a concern over how narrowly the proposals defined materiality. This is important because if the scope is too narrow, important risks and impacts would likely be excluded from company and investor decision-making.

OUTCOME We were pleased to learn that the ISSB have "tentatively" decided to remove the more narrow "enterprise value" basis for their definition of materiality[2], and we will continue to monitor and engage as the ISSB continues their important work.

2. https://www.ifrs.org/content/dam/ifrs/meetings/2023/january/issb/ap3-general-sustainability-related-disclosures-s1-cover-note-and-summary-of-redeliberations.pdf

Hearing the views of our members

More than 42,000 individuals in different roles within the Church rely on the Board for their pension. Our members place their trust in us to carefully steward and look after their pension savings. This requires that we not only invest their funds sustainably for the long term, but also that we encourage change on issues that matter most to our members and the world they will retire into.

Member views are therefore at the heart of our responsible investment approach. We hear those views and engage with members on our approach in several different ways:

1

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

- The EIAG supports us with timely and practical ethical investment advice, based on Anglican and Christian theology. As the Church of England's pension fund, the link with the EIAG helps us ensure that we are investing in line with the ethics and ethos of the wider Church membership.
- We also regularly report to the General Synod (the Church's legislative body, with a diverse membership from across lay and ordained ministry groups) on key investment matters, and our efforts to encourage radical sector-wide change on climate transition is a planned topic for a report to and questions from Synod in 2023.

2

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

- For instance, directing members to our annually published Stewardship Report through their annual benefit statements. This year, for the first time, we included an extract of the report with every members' statement.
- Links to details of our responsible investment approach are included on our new online members portal (with 15,000 members now registered).
- In 2022, over 200 members attended an open webinar, where trustees and senior colleagues reflected on the work of the Board over the previous year. Members also had the opportunity to put their questions direct to our Chair and other colleagues.

3

We actively seek views on how well we are communicating with members about our work, recognising that some of what we do can be quite technical in nature.

- This year, we held a focus group of DC and DB members to reflect on the 2021 edition of the Stewardship Report and offer ideas for the future.
- Responding to member feedback from this and previous groups, we have tried to find new ways of sharing our story. For instance, in 2022, we launched a short two-minute video on recent stewardship activity.
- In December, we held a member webinar focused on voting and workers rights.

OUTCOMES OF ENGAGEMENT

We have listened carefully and made several changes to this report as a result of member views. For instance, including more details about the challenges we face in advocating for change to corporate practice (see proxy voting case studies). This report also speaks to the steps we have taken to navigate the challenges that members have been most concerned about in the past year (with conflict in Europe and economic instability). Additionally, we have sought to offer more focused explanations in this report, and to them, of why stewardship matters. We look forward to continuing great conversations with members about our responsible investment work in 2023, ensuring they have confidence that their collective voices and pensions are driving real change.

Collaborations

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

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

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

Climate Action 100+ (CA100+)
The largest engagement coalition of investors ever assembled coordinates efforts to mitigate transition risk at the world's largest and highest carbon-emitting companies. The Board leads on engagement with European auto manufacturers, and co-chairs the mining and steel working group alongside UBS

Corporate Human Rights Benchmark (CHRB)
The Board formalised our support for this and integrates its assessments into our internal monitoring processes

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

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

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

The Investor Mining and Tailings Safety Initiative (IMTSI)
The Board chairs this coalition of over 110 investors with more than $23trn AUM, which was formed in 2019 to address tailings storage risks in the wake of the Brumadinho disaster that killed 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 ESG insights

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

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

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

Future priorities

- **Convene** the Global Investor Commission on Mining 2030 to address issues that strategically challenge the mining sector and its social licence, through a multistakeholder and consultative process. This is a major undertaking that will draw from the lessons that the Board has learnt in leading engagement following the Brumadinho disaster. The focus will be on the intersection between conflict and extraction, including development of approaches for reconciliation, peacebuilding and business

- **Establish**, together with the UN, the independent Global Tailings Institute to support the implementation of the Global Industry Standard on tailings management

- **Launch** the first ever framework to assess the climate characteristics of government sovereign bonds through the ASCOR project

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

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

- **Chair** the Global Paris Aligned Investor Initiative together with Dutch fund APG to oversee the development of the Net Zero Investment Framework by the world's regional investor networks to ensure we continue to evolve best practice and standardisation of net zero approaches by pension funds

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

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

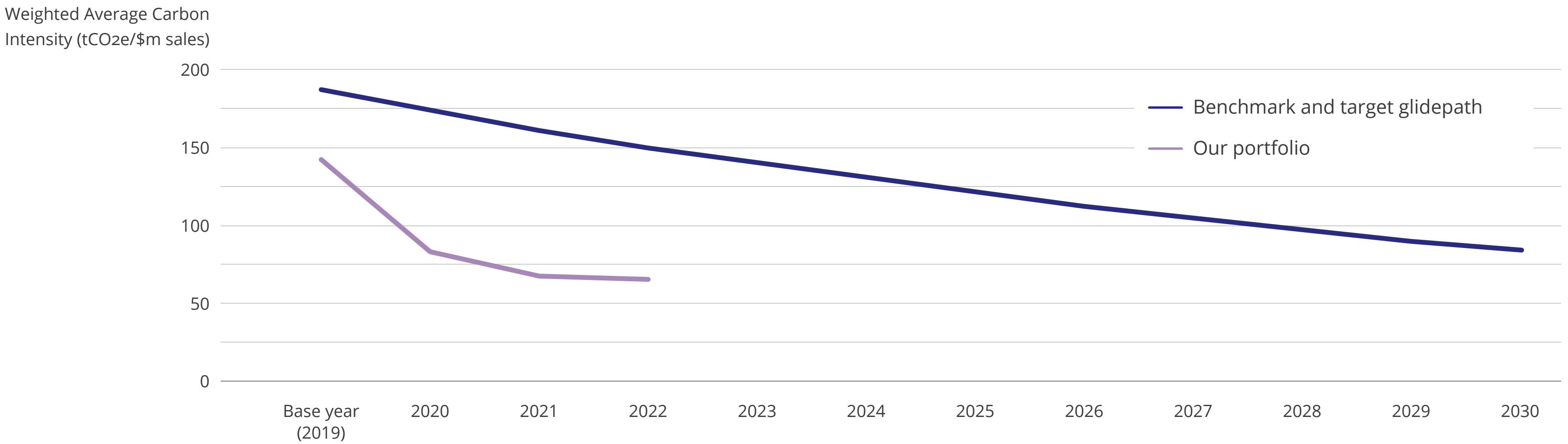
Appendices

Climate

A full standalone climate report covering 2022 is published separately under the TCFD framework, in order to meet pension regulations.

EMISSIONS INTENSITY TARGET TO 2020 VS PORTFOLIO PERFORMANCE

The TCFD report shows that the common fund's equity investments meet and exceed their target benchmark:



CARBON INTENISTY AND ABSOLUTE EMISSIONS

They also show year on year improvement in weighted average carbon intensity and absolute emissions:

	2019		2020		2021		2022	
	Equity portfolio	Bond portfolio	Equity portfolio	Bond portfolio	Equity portfolio	Bond portfolio	Equity portfolio	Bond portfolio
Weighted Average Carbon Intensity (t CO_2e/$M Sales)	142.2	13.5	83.1	15.1	67.5	12.9	65.4	32.7
Weighted Average Carbon Footprint (Scope 1 and 2)	170.29	0.58	77.12	1.06	76.70	1.64	68.04	2.19
Data Coverage by amount invested	92.45%	4.43%	89.27%	5.56%	91.53%	8.28%	92.62%	19.00%

Climate continued

Absolute emissions

The Common Investment Fund's equity portfolio generated 48,131 tCO_2e (portfolio data as of 31 December 2022). In prior years, the Common Fund's tCO_2e amounts were: 240,134 tCO_2e (2019), 111,090 tCO_2e (2020) and 108,599 tCO_2e (2021).

Compared to public equity data, the bond portfolio metrics reported above suffer from extremely low data coverage percentages, and significant changes in the data coverage over time.

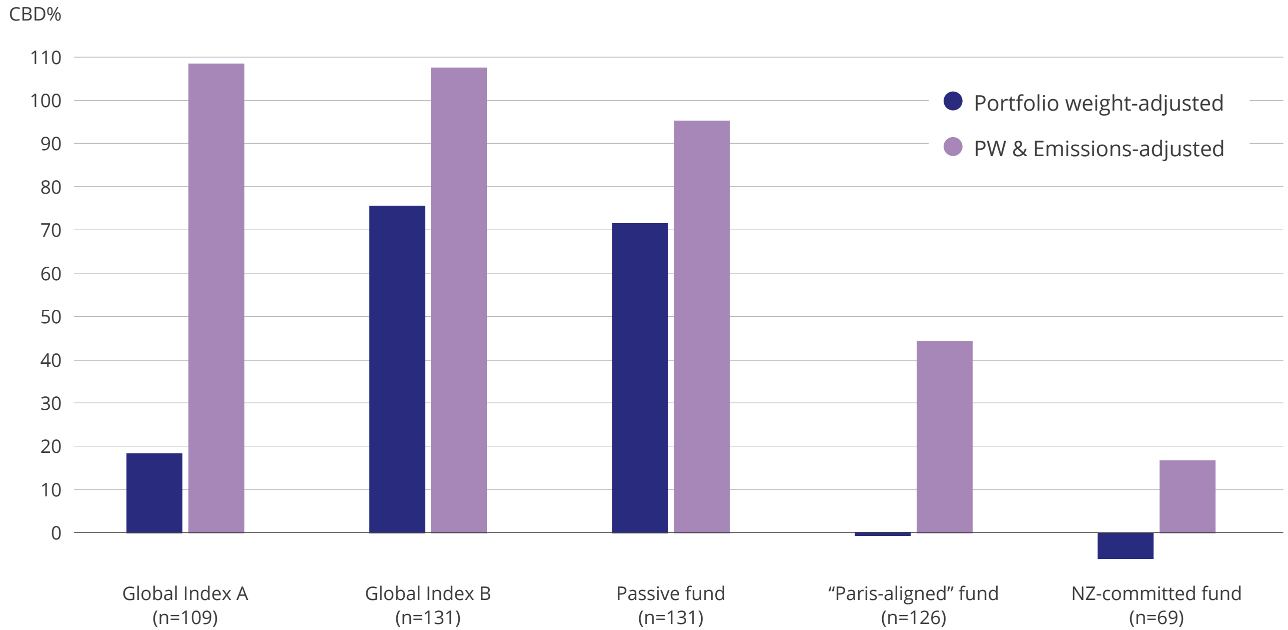
This has the effect of distorting the trend, which we would expect to be comparable to the trend in public equity, given that the climate related exclusions the fund has applied are applicable both to the equity and bond portfolio (as described above). The trustees believe that it is not possible to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

Portfolio alignment

Using a 'cumulative benchmark divergence' model, pioneered by the team at IIGCC, which is a measure of the proportion of portfolio investments that are aligned to net zero, where 0 is alignment with net zero pathways over time, negative percentages show better than net zero alignment and positive percentages show more carbon intensity than a net zero pathway, the Pensions Board equity portfolio can be considered aligned, achieving a cumulative benchmark divergence of -5.9% when the scores are aggregated by portfolio weight. However, when emissions are included in the weighting, the score increases to 16.3%, implying a degree of misalignment.

PORTFOLIO CUMULATIVE BENCHMARK DIVERGENCE (CBD) METRIC

Calculated across two global indices, a passive fund, a "Paris-Aligned" fund and a "Net zero (NZ) committed" fund. Note how the number of stocks covered by the analysis changes across the assessments. A lower score indicates a higher degree of alignment with a 1.5°C pathway. Aggregated CBD scores are weighted either only by portfolio weight (PW; blue columns), or by both portfolio weight and current emissions (lilac columns), according to a sectoral approach for counting emission scopes. This chart shows that the Board's equity portfolio (far right) was the closest to aligning to net zero of all of those tested.



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

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

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

Our significant votes

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

Priority Area	Our Voting Policy	2022 Votes	Companies
CLIMATE CHANGE Lobbying	**ABSTAIN** on the annual report and account applicable for CA100+ companies where there is a lack of disclosure of Lobbying activities / Trade Association membership.	18	A.P. Moller-Maersk A/S, Naturgy Energy Group SA, Volvo AB, Nestle SA, Danone SA, Bayer AG, Hongkong Land Holdings Ltd., Koninklijke Philips NV., Électricité de France S.A., Renault SA, LyondellBasell, Industries N.V., Iberdrola SA, SSE Plc
CLIMATE CHANGE TPI framework & Management	**AGAINST** the re-election of the Board Chair where the company is not at least Level 2 (i.e. companies assessed at level 0 and 1) of TPI Framework.	4	Daido Steel Co., Ltd., Japan Pulp & Paper Co., Ltd., NS United Kaiun Kaisha, Ltd., Nippon Coke & Engineering Co., Ltd.
	Vote **AGAINST** the re-election of the Board Chair where the company is included in the CA100+ programme, in the electrical utility sector, or Oil and Gas or diversified mining sector, and does not have a TPI Performance Pathway that is either aligned with or below the NDC (Paris Agreement) pathway.	N/A	N/A
DIVERSITY Ethnic Representation	**AGAINST** where the following combination of factors exists: • the company is a FTSE 100 or S&P 500 constituent; • the Chair of the Nomination Committee is standing for re-election to the Board; • the composition of the board of directors does not include at least one member of the board from an ethnic diversity; • the member has served on the Nomination Committee since the last AGM.	3	Skyworks Solutions, Inc., West Pharmaceutical Services, Inc., Dechra Pharmaceuticals Plc
DIVERSITY Gender	**AGAINST** the re-election of the Chair of the Nominations Committee where the following combination of factors exists: • the Company is a FTSE 350 constituent; • the Chair of the nomination committee is standing for re-election to the Board; • the composition of the board of directors does not include at least **40% gender diversity**; • the member has served on the Nomination Committee since the last AGM.	44	Compass Group Plc, Micro Focus International Plc, Smith & Nephew Plc, Anglo American Plc, Bunzl Plc, SEGRO Plc, Hikma Pharmaceuticals Plc, Persimmon Plc, NatWest Group Plc, AstraZeneca Plc, AstraZeneca Plc, HSBC Holdings Plc, Smurfit Kappa Group Plc, Travis Perkins Plc, Barclays Plc, GlaxoSmithKline Plc, Ocado Group Plc, Standard Chartered Plc, IMI Plc, Phoenix Group Holdings Plc, Aviva Plc, Antofagasta Plc, Rentokil Initial Plc, Network International Holdings Plc, St. James's Place Plc, Reckitt Benckiser Group Plc, WPP Plc, Intertek Group Plc, Legal & General Group Plc, Prudential Plc, Spectris Plc, Tesco Plc, Coca-Cola HBC AG, J Sainsbury Plc, DCC Plc, Royal Mail Plc, Experian Plc, Johnson Matthey Plc, DS Smith Plc, Wizz Air Holdings Plc, Barratt Developments Plc, Dechra Pharmaceuticals Plc, Associated British Foods Plc

Our significant votes continued

Priority Area	Our Voting Policy	2022 Votes	Companies
DIVERSITY Gender	**AGAINST** re-election of Chair of Nomination Committee where Executive Committee is composed of less than 33% female.	48	Smith & Nephew Plc, Anglo American Plc, Bunzl Plc, Hikma Pharmaceuticals Plc, Taylor Wimpey Plc, Persimmon Plc, NatWest Group Plc, Smurfit Kappa Group Plc, Travis Perkins Plc, Barclays Plc, Ocado Group Plc, Standard Chartered Plc, Unilever Plc, IMI Plc, Morgan Advanced Materials Plc, Direct Line Insurance Group Plc, Antofagasta Plc, Rentokil Initial Plc, Convatec Group Plc, Derwent London Plc, Network International Holdings Plc, St. James's Place Plc, Reckitt Benckiser Group Plc, Royal Dutch Shell Plc, Intertek Group Plc, Legal & General Group Plc, Centrica Plc, Informa Plc, Tesco Plc, Coca-Cola HBC AG, Kingfisher Plc, 3i Group PLC, Land Securities Group Plc, RS Group Plc, DCC Plc, Royal Mail Plc, Halma Plc, SSE Plc, Vodafone Group Plc, Ashtead Group Plc, DS Smith Plc, Barratt Developments Plc, Dechra Pharmaceuticals Plc, Smiths Group Plc
DIVERSITY Gender	**AGAINST** re-election of members of Nomination Committee where Executive Committee is composed of less than 25% female – FTSE 100	49	Bunzl Plc, Taylor Wimpey Plc, Antofagasta Plc, St. James's Place Plc, Intertek Group Plc, 3i Group PLC, DCC Plc, SSE Plc, Ashtead Group Plc, Barratt Developments Plc, Smiths Group Plc
DIVERSITY Gender	**AGAINST** the re-election of the Chair of the Nomination Committee where the following combination of factors exists: • all other jurisdictions; • the Chair of the nomination committee is standing for re-election to the Board; • the board does not contain at least one female director; • the member has served on the Nomination Committee since the last AGM.	3	DB Financial Investment Co., Ltd., MERITZ Financial Group, Inc., Pinduoduo Inc.
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.	5	Anglo American Plc, NatWest Group Plc, Direct Line Insurance Group Plc, Coca-Cola HBC AG, Associated British Foods Plc
TAX TRANSPARENCY	**AGAINST** Board Chair where the company (FTSE 350 and Russell top 50) when companies show no evidence of corporate tax management.	19	Costco Wholesale Corporation, Accenture plc, Broadcom Inc., Bank of America Corporation, PepsiCo, Inc., Verizon Communications Inc., JPMorgan Chase & Co., The Home Depot, Inc., Merck & Co., Inc., Amazon.com, Inc., Morgan Stanley, Alphabet Inc., Comcast Corporation, Walmart Inc., UnitedHealth Group Incorporated, T-Mobile US, Inc., Oracle Corporation
MINING & EXTRACTIVES	**AGAINST** re-election of Chair of Board where companies have not responded to the disclosure request made by the Investor Mining and Tailings Safety Initiative.	2	Daido Steel Co., Ltd., DOWA HOLDINGS Co., Ltd.
LIVING WAGE	**AGAINST** the re-election of the Remuneration Committee Chair if the company is a FTSE 100 constituent in either the Financial Services, Communications or Pharmaceuticals sector where the company is not a Living Wage accredited employer or met Church CIG's engagement standard.		Hikma Pharmaceuticals Plc, Prudential Plc

Financial Reporting Council Stewardship Code Report

The Board was pleased to maintain its signatory status to the UK Stewardship Code in 2022

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

The Board's purpose, beliefs, culture and strategy are interconnected and outlined in a number of documents, including Our Approach (page 10). The Board's duties include providing retirement housing and pensions, set by the Church of England, for our 41,000 beneficiaries who have served or worked for the Church. The Board, as a Church of England institution, seeks to invest in a way that is consistent with the Church's ethics and ethos, guided by the Ethical Investment Advisory Group and the General Synod. The way we invest is outlined in the Fund Profile (page 6), 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 (for example, how we created the Transition Pathway Initiative resulting in its insights being integrated into our stewardship activities and even creation of a passive index) and the stewardship of investments.

The third-party assessments of our climate strategy outlined in our Climate section, and in our TCFD report (available here) give us confidence that we have been effective in serving the best interests of our beneficiaries through the outcomes of our stewardship strategy. Previous awards received from the UN-backed Principles for Responsible Investment on Stewardship and for ESG Integration, and recognition from the UK Government's Department for Work and Pensions (see public policy section), are additional external acknowledgment of the approach the Board has taken.

Further details are available here:

- The Board's Investment Principles and Beliefs: CofE.io/InvestmentPrinciples
- Our Annual Review: CofE.io/PBReview2022
- Our Stewardship Implementation Framework, which details how we oversee and set stewardship expectations of asset managers: CofE.io/PBStewardship Implementation. Our Schemes' Investment Principles and Beliefs were reviewed by the Investment Committee in 2021 and the Stewardship Framework was approved by the Investment Committee in 2019.

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

Consistent with our investment beliefs, the Board integrates ethical and responsible investment.

The CIO and CRIO co-lead the investment team of 10 (as at 31 December 2022) full-time equivalent (FTE) staff, under one budget, and report to the CEO. This structure is consistent with the Board's investment beliefs in relation to integrating ethical and responsible investment. The Board and its Investment Committee are supported in their work on stewardship by the Executive, our investment consultants and legal advisors (Mercer, LCP, Linklaters, Osborne Clarke) and advice from the Church of England's Ethical Investment Advisory Group (EIAG). The Board's Investment Committee regularly conducts "deep dive" sessions that incorporate training, and stewardship/ethics and engagement are a standing agenda item. Further detail on the processes that enable the Board to integrate stewardship are provided in the Board's Stewardship Implementation Framework (approved by the Investment Committee in 2019 and available at CofE.io/PBStewardshipImplementation), and the Board's Annual Review (CofE.io/PBReview2022) includes reporting against our objectives to "Demonstrate leadership in ethical and responsible investment" and "Model good governance and stewardship". The Board, its investment committee and the EAIG regularly and routinely review their effectiveness, and in the reporting year.

The Board's policies and commitments, outlined throughout this report, require significant expertise and operational capacity to be devoted to stewardship. We recognise that we cannot achieve the changes we are seeking without support and collaboration from external partners, advisors and fellow investors. The team's structure developed during 2022, enabling us to further build and maintain effective partnerships in our priority areas. In order to deliver on our priorities of climate change and mining stewardship (to drive one to two major initiatives in each area), alongside delivering our core responsibilities (including voting at company AGMs, ethical screening, manager monitoring), the team has expanded to include subject matter specialists to lead on climate and environment, social topics, and governance. The team listed on page 51 (Meet the team) will be complemented with a Director, Governance (Responsible Investment) in 2023, along with additional analyst capacity.

Disclosures on the Board's diversity and pay are made in our Annual Report, available at CofE.io/PBFinancialStatements. Staff undertake formal performance reviews every six months, and regarding Stewardship Code no. 2.6 the Board does not offer variable incentive payments. In order to act effectively on our investment beliefs around stewardship, the investment team comprises professionals with both investment and stewardship expertise (see the table on page 51). On stewardship, members of the team have extensive experience in leadership and responsible investment roles, relevant graduate, postgraduate and professional qualifications, and undertake continuing professional development (e.g. Investment Management Certificate qualifications).

Alongside our investment consultants Mercer, the Board uses third-party service providers MSCI (ESG data), Sustainalytics (ESG data), ISS (proxy voting implementation) and Refinitiv EIKON (investment and ESG data), and draws on the resources and expertise of a number of organisations that we work with, lead, or are members of, including the Principles for Responsible Investment (PRI), the Transition Pathway Initiative (TPI), the Institutional Investors Group on Climate Change (IIGCC), the Net-Zero Asset Owner Alliance and the other groups and coalitions outlined in our section on "Engagement Collaborations", where we also detail the nature of our involvement in the collaboration (page 39). Further details on how these providers' data are used are provided on page 35 (ESG data to support engagement), Voting (pages 31 – 34) and Screening (page 36).

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

The Board has published an updated Code of Conduct and Conflicts of Interest Policy in 2022 (www.churchofengland.org/sites/default/files/2022-03/CEPB%20Code%20of%20Conduct.pdf), which applies to staff, trustees and those co-opted to serve on committees. The Code requires members to observe the highest standards of impartiality, integrity and objectivity in relation to the business and management of the Church of England Pensions Board, and follows the Seven Principles of Public Life set out by the Committee on Standards in Public Life. The Code describes different kinds of conflict, including conflicts specific to the Board's stewardship activities. These conflicts may be direct and indirect, pecuniary and non-pecuniary. Sections 12–20 of our Code of Conduct outline the Board's policy and approach to handling and addressing conflicts of

Financial Reporting Council Stewardship Code Report continued

interest, including the registration of interests, declaration of interests, withdrawal from meetings and lobbying other members. The EIAG also operates a Code of Conduct that includes provisions for conflicts of interest.

During 2022, and as standard practice a summary of interests is attached to each Board agenda, and each meeting starts with declarations of new interests or existing interests which may be pertinent to any item under discussion. The quorum is tested after considerations of any conflicts of interest.

Where a trustee may potentially have a conflict of interest in relation to a particular matter under discussion, it is usual for that trustee to recuse themselves from discussion or decision in relation to that matter. No conflicts of interest were found in relation to stewardship activity.

Potential conflicts or areas of risk might arise – for example, if a committee member were to have a relevant relationship with an investment manager being considered for appointment, a company subject to engagement, or an advisory or consultancy tendering for work. These would be addressed following the Board's Code of Conduct, through registering and declaring actual or potential conflicts of interest, and withdrawal from meetings where appropriate. One area of broader interest for the Board is potential misalignment between our approach to stewardship and the stewardship policies of our asset managers, and the companies we invest in. Please see the reporting above (page 20) on corporate climate lobbying for one initiative to mitigate conflicts (misalignment) between the Board's stewardship interests and the lobbying that the companies we own fund. In order to address potential and actual conflicts with our asset managers, we incorporate stewardship reviews into our selection and appointment process, seek segregated mandates where possible, conduct all proxy voting in-house (which other pension funds typically delegate to their asset managers) and have incorporated stewardship into our regular asset manager monitoring and assessment. Further detail is available in our Stewardship Implementation Framework: CofE.io/PBStewardshipImplementation

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

The Board's two "Impact Engagement" stewardship priorities address market-wide and systemic risks. These priority areas were identified and chosen by the Investment Committee after a process of evidence gathering, review and deliberation, with support from the EIAG. The Board's approach to stewardship and investment decision-making in light of these risks, and our extensive collaborations, are detailed above in these sections: Climate Change on page 16 and Mining on page 27. The systemic risk of climate change is articulated in our Statement of Investment Principles and Beliefs; our Policy on Environment and Climate Change (available at CofE.io/ViewOnClimateChange), and our 2022 TCFD report. The reporting on pages 18–19 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, developing corporate lobbying standards and our collaborative engagement activities, enable other investors (and the wider social and economic ecosystem) to manage climate change risks and opportunities. We view a range of mining-related risks as systemically important. For example, tailings storage facilities pose a systemic risk due to their prevalence in the mining industry, the severe impacts if they fail, and the mining industry's prevalence in supply chains globally. The Board focused on these risks as a result of the EIAG's advisory paper on extractive industries, and through convening a series of investor led multistakeholder roundtables after the tragic tailings accident at Brumadinho, Brazil. This sector has wider systemic characteristics, because the minerals and metals it produces (including for example copper and lithium) are necessary in the transition to a low carbon economy.

Our work, together with the UN Environment Programme and industry, to develop and drive the adoption of the Global Industry Standard on Tailings Management (see page 28), supports improved resilience in the mining industry and supply chains. To further strengthen this intervention we have focused on working with the UN and the aid of an independent International Advisory Panel to develop the governance of an independent Global Tailings Management Institute that will oversee the auditing of mine sites conformance with the global Standard.

In 2022, the Board also worked with the EIAG to identify and assess systemic risks related to investments in Russia and investments in Big Tech companies. The process on Big Tech included industry roundtables, wide consultation and theological reflection. It resulted in the publication of a new ethical investment policy on investing in Big Tech, which is available here.

As described above, systemic risks will be a focus in 2023, and we intend to report in more detail next year on our approach to reviewing and prioritising these topics.

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

The Board's suite of ethical investment policies and processes are reviewed on a regular and ongoing basis by the in-house team, the Investment Committee, the Board, and the EIAG and its semi-independent Secretariat, and are subject to internal audit processes.

The EIAG (which advises the Board on ethical investment matters in a way that is consistent with the Anglican ethos of the Board) operates under Terms of Reference that include a periodic "stock take" review of ethical investment and the suite of ethical investment policies. The EIAG began a review of its suite of ethical investment advice in 2022, to which the Pensions Board is actively contributing at both staff and trustee level. This is a structured review of policies, their goals, continued relevance and application.

It also conducted a "health check" review of its processes and effectiveness, confidentially surveying 30 stakeholders by written feedback and face-to-face interviews. This was reviewed by the EIAG and the three bodies that fund the EIAG, and some changes to the meeting format were implemented. In 2022, the EIAG met four times (and additionally at working group level) and received a report from the Board on its stewardship activities on each occasion. In 2022 the Investment Committee undertook a "deep dive" review of climate change, including the various requirements of the TCFD reporting framework. The Investment Committee also reviewed and updated its proxy voting policy, strengthening its requirements in relation to board diversity, among other changes.

The Board undertakes both internal and external checks on its Stewardship Report in order to verify that the reporting is fair, balanced and understandable. Externally the Board uses consultants to check that the report meets our needs in relation to the Stewardship Code and TCFD. This approach ensures that there are at least two levels of checks beyond the drafting team. In 2022, we held a member focus group to receive feedback on whether the report is balanced and understandable. Page 38 reports on changes made to the way we engage with members, and the outcomes of that consultation. We additionally use feedback from the FRC Stewardship Code team as a reference point for the standard of our reporting, and to help us improve each year. The Stewardship Report is ultimately approved by the CEO, Chair of the Investment Committee and Chair of the Board and submitted to our Investment Committee.

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

The Board has 42,000 members across three schemes. See the Fund Profile section (page 5) for a description of the Board's investment approach, a breakdown of our assets under management (by asset class and geography), the structure of various schemes and the Board's Annual Review (www.churchofengland.org/cepb) for a description of the Board's three schemes. Following our 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. The EIAG provides regular public reporting on its advice and the Board's ethical investment policies (see www.churchofengland.org/eiag/policies), and the Board regularly communicates directly with beneficiaries.

This year, the Stewardship Report contains a dedicated section on how we engage with members, including the outcomes of 2022 engagement. Page 38 details our approach to member engagement, including our ongoing assessment of the effectiveness of that engagement. In 2022, the Board convened a member workshop to provide feedback and insight into members' views on our Stewardship Report 2020/21. We believe a dedicated deep dive workshop to be more effective than a questionnaire in eliciting high-quality feedback, though the selection bias is likely to be stronger (as more interested members – vs. the average member – are likely to offer their time). Participation and engagement with the workshop was good, and we plan broader engagement in 2023 in order to complement the depth of workshops. In 2022, the Board hosted its first Member Meeting – open to the general membership, which provided an opportunity for break-out sessions on stewardship, live question and answers, and an invitation for members to provide additional feedback, which was positive. Over 250 members participated and bespoke sessions enabled members to engage with the executive on key aspects of our approach.

This report is the third annual standalone Stewardship Report.

- We have a dedicated section in our Annual Report and a shorter Annual Review for beneficiaries. (The Board's Annual Review is available at www.churchofengland.org/cepb)
- We publish our annual Stewardship Report (this document) online, and will be publishing Implementation Statements for each of our schemes with their annual reports.
- We have a dedicated section on our website about our major engagements.
- We have a communications capacity which targets specific media that our beneficiaries read.
- We deliver reports to the General Synod (equivalent of a parliament) of the Church of England as well as reports to Bishops and Archbishops on progress.
- We have ensured that the TPI tool, and other stewardship related information, such as details of the response we have received from mining companies engaged with, remains free and publicly available so that any trustee or beneficiary can access its analysis and hold us to account on engagement progress.
- We convene an annual member feedback workshop, inviting all members to participate.
- We publish all our proxy voting records, including the rationale for votes where we do not support management.

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

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

Stewardship is integrated throughout the Board's structures, processes and decision-making. It is integrated at the Board committee level and among executive leadership (the investment team is co-led by the CIO and CRIO), operationally through the close collaboration that investment and stewardship specialists have on manager monitoring, manager selection and in, for example, establishing our approach to individual proxy votes and shareholder resolutions. A good case study of this integration in practice is our work with FTSE Russell to develop the FTSE TPI Climate Transition Index where we collaborated to integrate climate considerations into the rules and tilts of the index. The Common Fund's passive equity investments all track this index (2022). We also replicated the rules of the index with our active managers. Our approach to ESG, stewardship integration and manager monitoring applies across all funds, asset classes and geographies, including all manager selection decisions. All managers are provided with either our list of restricted issuers (see Screening) or the categories of restricted investment (for alternative asset managers), and all asset managers are subject to our internal enhanced ESG assessment and engagement programme (see above).

There are some differences across asset classes: in public equity our engagement with underlying holdings is most often direct, and there is no difference in our engagement, proxy voting, or escalation strategies across funds or geographies. In alternative asset classes our stewardship is primarily focused on and mediated by our asset managers, and our approach to manager monitoring is uniform across geographies (see page 31). 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.

In the reporting period we ensured that a "buy-in" opportunity for a section of one of our schemes included ESG and stewardship considerations, including a gap analysis between the shortlisted insurers' stewardship policies and our own. The gap analysis used desk-based research and interviews with the insurers. Good ESG/Stewardship performance was a "condition precedent". It was reviewed by the trustee working group, and material poor ESG/Stewardship performance would have led to an unsuccessful tender. Our Pooled Funds policy was used as a red flag assessment. The transaction took place in 2022.

See the text under Principle 2 above, and Our Approach (pages 10–14), Climate Change (pages 16–17), Mining (pages 27–28), Screening (page 36) and Voting (pages 31–34).

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

Stewardship is a standing agenda item for manager update meetings, during which typically there is discussion of both the managers' stewardship

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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 the Board's Stewardship Implementation Framework, which notes, with regard to escalation: "The Board's Investment Committee believes that there are circumstances in which poor ESG and stewardship performance could warrant the termination of an asset manager's investment mandate." Regular meetings and due diligence questionnaires lead to a range of outcomes, including changes to our internal enhanced ESG assessment/rating of the manager (which is considered by the investment committee on a quarterly basis), actions and follow-up meetings, and amendments to documentation (for example, to reflect an agreed decarbonisation strategy). In the reporting period, all asset managers received an internal rating (up from X% in 2021), and one asset manager improved their score.

The Board encourages its asset managers to join our collaborative engagement efforts. For example, the Board is co-charing the ASCOR project on the climate characteristics of sovereign debt (see page 23 above), and is joined on the steering committee by Colchester, the manager of our emerging market sovereign debt portfolio. Many other examples of positive stewardship collaboration with our asset managers are included in the reporting above. The Board undertakes and monitors proxy voting in-house (see pages 31 to 34), including regular reviews of the recommendations provided by our service provider, ISS. Outcomes and insights from these reviews feed into our annual voting policy review process. During 2022, the stewardship team investigated a number of votes that were cast but not executed at the relevant AGM. This investigation uncovered a process error at one of our external service providers. After an extensive review and two meetings, the service provider implemented a series of changes to their approach in order to prevent the situation occurring again. The team continues to monitor this and Trustees were fully engaged in the steps the Board has taken related to our provider. We operate a screening committee (comprising executives from the Church of England Pensions Board, the Church Commissioners and the CBF Church of England Investment Fund) that reviews our screening service provider and maintains our list of 'special restricted' companies (see Screening), which we add to the screening service provision from MSCI. Our service providers (MSCI and ISS) are monitored on an ongoing basis at an operational level, via the monthly screening committee mentioned above, and through various compliance and quarterly reporting check-ins. These regular reviews provide us the basis to state that, on the whole, all of our stewardship related service providers met our expectations.

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

The way the Board prioritises, monitors and evaluates our corporate engagement and the outcomes we have seen, including case studies, are detailed on pages 29–40.

Some of the companies we engaged were not portfolio companies but rather were engaged either with a view to restriction or under our priority engagement strategies. This engagement based on systemic change being needed, and often sector-wide engagement was called for as an effective approach. This was applied to companies are in our "investable universe" and/or in the supply chains of companies we hold investments in. For more explanation, see the Climate Change and Mining sections.

Our engagement with issuers often involves setting expectations (e.g. through the TPI, the IIGCC's Net Zero Investment Framework, corporate climate lobbying, in relation to disclosure and standards for tailings storage facilities, and workforce-related disclosures), and 2022 outcomes detailed above include escalation through proxy voting, further expectations-setting in engagement, disinvestment and various changes made that satisfied expectations. Our Stewardship Implementation Framework (CofE.io/PBStewardshipImplementation) outlines the approach we take across asset classes.

The clearest example is the FTSE TPI Index, which embeds five different climate adjustments (two of which are based on TPI analysis) and has, in 2022, marginally outperformed the benchmark as a result of the changes that we have implemented. This is in addition to meeting our climate net zero targets.

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

The Board's collaborations (and roles/contributions) are highlighted in the section on Collaborations, on page 39, where we also indicate our role in the collaborations. As stated in the section on Our Approach (pages 10–14), and demonstrated in the Climate Change (pages 16–17) and Mining (pages 27–28) sections, we work in collaboration with other investors in order to amplify our influence (e.g. we co-founded and chair the TPI, which is integral to our climate strategy and supported by over 140 investors, with over $50trn AUM (up from 120 (2021) and 95 (2020) investors with more than $40trn (2021) and $23trn (2020) AUM). Our work on tailings (page 28) continues to involve 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 above.

The ASCOR project detailed above (page 23) provides a good example of collaboration with one of our asset managers, as a representative of Colchester sits with us on the Steering Group of that project, working to set climate related expectations of sovereign debt issuers. In relation to outcomes, 2022 saw the publication of the first progress report of that initiative (available here). We also engaged extensively with our alternative income manager, receiving, for the first time, relevant climate reporting.

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

The Board's Stewardship Implementation Framework and Business and Engagement Policy (www.churchofengland.org/eiag/policies) detail our expectations and escalation strategies for stewardship. In general we conduct stewardship against our policies in-house, rather than via our asset managers, though we do have general stewardship and ESG expectations of managers. Our ongoing monitoring of managers leads to a range of outcomes and escalation where there is misalignment between a manager's and our approach to stewardship, including changes to our internal enhanced ESG assessment/rating of the manager (which is considered by the Investment Committee on a quarterly basis), actions and follow-up meetings, and amendments to documentation (e.g. to reflect an agreed decarbonisation strategy). We involve asset managers in our stewardship programmes on a case-by-case basis, particularly where they have additional insight that can be brought to bear (e.g. via an active strategy).

We have a special procedure for intensive engagement when severe ethical or responsible investment concerns arise. Engagement will normally involve multiple meetings with the company. Specific, measurable, achievable, reasonable and timely progress by the company is sought and monitored. Our Business and Engagement Policy states our preference for engagement, but escalation can lead to disinvestment. By way of some examples of escalation tactics, in 2022 these have included collaboration (on climate-change engagements), public statements (e.g. listing companies that did not respond to the Investor Mining and Tailings Safety Initiative's ask that company leadership supports the Global Industry Standard on Tailings Management), preparing to file a shareholder resolution (which was rejected by the company, resulting in further escalation via the German courts, see VW section above), voting against directors (we voted against management

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at 17.11% of all resolutions at company meetings), reducing exposure (through the FTSE TPI Climate Transition Index) and disinvestment (where we assess engagement has failed or that a company activity poses no possibility of reform). All of these escalation strategies were deployed in 2022.

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

PRINCIPLE 12 Signatories actively exercise their rights and responsibilities.

The Board conducts portfolio-wide ESG, thematic and controversy analysis. This helps us to prioritise engagement and feeds into our manager monitoring. We vote our own shares in-house, according to our voting policy template disclosed in this Stewardship Report on page 44 (alongside all votes against management), thereby discharging the Board's responsibility to vote on its shares. In 2022, we cast 96.5% of the votes on ballot items on which we could have issued instructions (none of our public equity managers discharge voting rights on our behalf).

We have invested in an in-house governance and voting role that manages and monitors our voting processes. During 2022, this was delivered by a dedicated governance and voting manager, and latterly by an analyst overseen by the executive team. As a result we are able to apply expertise to exercise discretion (on the basis of the Board's ethical investment policies and corporate governance best practice) on resolutions that do not fall neatly under the template and on all shareholder resolutions. Case studies of vote outcomes are reported on pages 32–34, which include outcomes that go beyond the result of the vote, to include direct engagement with Board members, and ongoing programmes of work. The Board does not undertake stock lending as we believe it impedes our stewardship capacity.

In relation to fixed income investments, managers fall under our monitoring process (page 30), and our restricted list of listed issuers is applied so we deny debt financing to restricted companies. The right to restrict issuers is included in the investment management agreement. A review of credit was begun in 2022, however the conclusion was deferred to 2023 due to unexpected and significant changes to the landscape of LDI investing that occurred in the Autumn of 2022.

Our manager selection process includes stewardship from the earliest stage, involves a requirement that the manager can implement our restricted list (as appropriate for the asset class), considers their capacity for ESG integration and stewardship, and diversity (see page 30). Our expectations in this regard are set out in our Stewardship Implementation Framework (CofE.io/PBStewardshipImplementation).

Beyond public equity, our stewardship responsibilities are exercised primarily through our regular periodic asset manager engagement. Outcomes of this engagement include new reporting (on diversity in our asset managers' workforce, and in relation to climate), and bespoke processes that enhance our oversight of the responsible investment characteristics of underlying holdings. For example, our discretionary private equity manager produces bespoke ESG/ethical reviews of each underlying fund for discussion, which has led to the non-selection of one potential investment.

Shares are monitored via our custodian (Northern Trust), through our ESG provider MSCI, and our internal stewardship integration processes. Voting rights are monitored via ISS, our voting and screening manager, and the internal processes we have in place as described in our answer to Principles 6, 7 and 11 above.

We publicly disclose our votes and the rationale for our votes withheld or against management (cofe.io/VotingAndEng), and communicate directly with companies, prioritising FTSE 350 companies, our largest holdings and companies otherwise targeted for engagement.

Meet the team

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

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

Michael Pratten
Chief Investment Officer

Dan Taylor
Head of Manager Selection

Ryan Baker
Investment Analyst (from May 2022, previously Investment Operations Analyst)

Jason Brannigan
Investment Analyst (until May 2022)

Julie Dunne
Investment Operations Manager

Andrew Jones
Investment Operations Analyst (from October 2022)

Shirell Adams
Investment Operations Assistant (from August 2022)

Tammy Woods
PA to the CIO and CRIO

Adam Matthews
Chief Responsible Investment Officer

Stephen Barrie PhD
Deputy Chief Responsible Investment Officer

Clare Richards
Senior Engagement Manager April-December 2022 on secondment, then Director, Social (Responsible Investment) (appointed November 2022)

Laura Hillis
Director, Climate and Environment (Responsible Investment) (appointed September 2022)

Raj Singh
Senior Engagement Manager (until August 2022)

Sheila Stefani
Senior Stewardship Analyst (until March 2022)

Theodore Cruthers
Responsible Investment Analyst

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

The trustees are elected or appointed by the members and employers of the pension schemes, and other interested bodies. The Chair of the Board is appointed by the Archbishops of Canterbury and York with the approval of General Synod. The Board of Trustees normally meets five times a year, supported also by committees covering housing, pensions, investments and audit.

Our 12 trustees are diverse and come from a range of professional backgrounds, offering significant expertise and insight to our work. Diversity is important to us, and we maintain a profile of our trustees' diversity to ensure successful delivery and oversight of all we do.

In 2022, we completed an externally facilitated Board effectiveness review, in line with good practice under the Charity Governance Code and The Pensions Regulator's guidance. The review affirmed the strength of the Board's governance arrangements, while also offering suggestions for further improvement.

> "I would like to record my personal thanks to all trustees and committee members for their time, wisdom and support in 2022. A huge thank you also goes to our dedicated staff for their commitment and hard work."
>
> Clive Mather, Chair

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