CHURCH COMMISSIONERS for ENGLAND

AN ETHICAL AND RESPONSIBLE APPROACH

Stewardship Report 2022

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WELCOME TO THE CHURCH COMMISSIONERS' STEWARDSHIP REPORT 2022

There has never been a greater need for responsible and ethical investment. Companies and investors must act now to combat climate change and the host of social challenges, some of which have been exacerbated in the past three years. In 2022, we worked to address these challenges. We are pleased to share our latest Stewardship Report. It has been reviewed and approved by the Church Commissioners' Assets Committee as the Board Committee with oversight of the Investment fund, as well as the Board of Governors. In drafting this year's report, we have taken into account the Financial Reporting Council's (FRC) detailed and valued feedback on our 2021 Stewardship Report and have tried to address as much of this as possible.

Our work is grounded in the themes 'Respect for People' and 'Respect for the Planet', which are underpinned by 'good corporate governance'.

FIRST CHURCH ESTATES COMMISSIONER LETTER

"Our ambition is to punch above our weight, to lead by example, and to bring others along with us."

Alan Smith is the First Church Estates Commissioner. In this role, Alan chairs the Church Commissioners' Assets Committee, a statutory committee responsible for the strategic management of the Church Commissioners' investment portfolio. Alan also sits on the Church Commissioners' Board of Governors and is a member of the Archbishops' Council. He was appointed by Her Late Majesty Queen Elizabeth II in October 2021. Alan's career spans 35 years in risk management, finance, investment banking and advisory roles at HSBC and KPMG.

People often ask me, what sets the Church Commissioners apart from other investors? It is our values, which guide us in everything we do.

Of course, all investors have investment policies, which include some environmental, social and governance (ESG) criteria, but ultimately the key metric is returns – often short-term returns. We take a much longer view.

The Church of England (CofE) is an ancient institution. Our job is to provide the maximum sustainable funding to support the mission and ministry of the Church in perpetuity. So we are focused on protecting and growing our assets over the long term.

As a values-based investor, of course we also consider the greater good – of people, and of the planet. This is much more than an aspiration. It fundamentally informs how we approach our task, and we take this responsibility very seriously.

We all grapple with the big questions: How can we pass on a better world to our children? How do we protect the planet? How can we contribute to a just transition to net zero? And how do we best support the Church's mission, aligned to our wider ambition to create a better world for all of us, and consistent with our fiduciary duties as stewards of a unique in-perpetuity endowment fund?

We are convinced we can do so – we believe that 'Good Business is good business' and that 'Values drive value' – and through our investments we try to give life to these principles. For example, by investing in the energy transition.

We have significant investments in this area. For example, we have invested in charging networks for electric vehicles, which need to be in place for the EV revolution to succeed, and to succeed quickly. We are investing in energy storage and generation, for example by installing wind turbines and solar panels across our estates. We invest directly in energy efficiency and infrastructure. We seek out promising investments in companies that are leading the way towards the future we want to see.

All these technologies are of course vital to the transition – but we think they are also attractive investments as the world races to meet net zero goals.

Alone, we can only achieve so much. Our ambition is to punch above our weight, to lead by example, and to bring others along with us – companies, regulators, governments. That helps us achieve tangible progress. We do this in a variety of ways.

We engage other investors through the Net Zero Asset Owner Alliance (NZAOA), a body convened by the UN. We co-founded a tool that provides insights into how well companies are doing on their climate goals – the Transition Pathway Initiative (TPI). In fact, we use TPI data to benchmark our own investments in fossil fuel companies and help us decide whether to continue to engage in the hope of forcing real change – or simply to divest.

The hard truth is that the oil and gas industry is still not doing enough. While we believe that engagement can deliver results, if we do not see the results we are looking for, we have made it clear that we won't hesitate to divest. And that is what we have done. In July 2023, the TPI data showed that none of the oil and gas companies in which we held stakes had passed our hurdles. That is why we divested all of our oil and gas holdings – a step we took with some sadness.

Ultimately, our purpose is to support the Church, to provide for future generations, and to do so in a way that truly makes the world a better place. On that measure, I believe we are succeeding – even as much still remains to be done.

Alan Smith
First Church Estates Commissioner

CHIEF INVESTMENT OFFICER LETTER

"Our aim is to engage positively with the big challenges of the next decade: climate change, nature loss and rapid social change."

The Church Commissioners aims to be an exemplary responsible investor. We do this by making sure our strategy aligns with our mission and values, selecting our investments very carefully, and working with others to achieve our goals.

Being a responsible investor means using our voice to encourage companies to make changes to the way they do business – changes that are necessary if we are to successfully confront inequality, climate change and other systemic challenges. Responsible investment is also about holding a diversified portfolio across asset classes, taking proper account of ESG issues, and making sure we take the long view.

Meeting our performance objective allows us to honour our historic pension obligations and to grow our support for the Church, balancing the needs of current and future beneficiaries. Since 2005, we have managed to grow our (non-pensions) distributions at more than double the rate of inflation, thanks to strong investment performance.

Despite exceptionally challenging and volatile markets, the Church Commissioners' fund was able to deliver a positive return in 2022. The total net return was 5%.

Our longer-term performance remains strong. Our three, five, 10, 20 and 30-year returns are in line with or ahead of our targets. Based on these returns, the value of the Church Commissioners' investment assets on 31 December 2022 stood at £10.3bn, net of the bond proceeds, compared with £10.1bn at the start of the year. Over the past 10 years, the fund has achieved an average return of 10.2% per annum – a very creditable result.

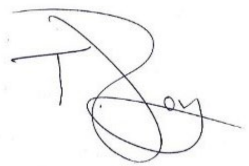
The Church Commissioners is a faith-based investor and that is clearly reflected in our responsible investment strategy. For us this is as much a rational business consideration as it is an ethical position.

We believe the best returns come from working with the strongest external managers, unless it makes sense to hold assets directly. We continually engage with our fund managers, as we do with the companies we invest in directly, with a view to improving their responsible investment practices. This work is central to what we do, and we now have seven talented team members in our Responsible Investment team, up from six last year.

In 2022, we cast almost 20,000 votes at Annual General Meetings (AGMs), focusing on areas like executive pay, diversity, tax policy and, of course, climate change.

Our aim is to engage positively with the big challenges of the next decade: climate change, nature loss and rapid social change. We are working to reduce our own carbon footprint, that of the investments we hold, and of the companies with which we engage. And we are investing in companies that are busy building the future. As of December 2022, we have more than £800mn invested in climate and environmental solutions, including energy efficiency technology, electric vehicle charging infrastructure and renewable energy generation. We believe this focus has helped boost our returns.

As responsible stewards of the Church's assets, we not only engage with our fund managers and companies, but we also think very carefully about where our funds can be best invested to bring about positive change directly. The challenge is how to combine positive real-world outcomes with strong investment returns that help contribute to the smooth running of the CofE.



Tom Joy
Chief Investment Officer

YEAR IN REVIEW

HIGHLIGHTS

- In July 2022, the Church Commissioners raised £550mn through a debut bond issuance, including a £250mn sustainability bond with a 10-year maturity.
- Expanded our team to include leads for Net Zero, Social Issues, and Real Assets sustainability, creating strategies for all three.
- Revised our Responsible Investment (RI) strategy and our approach to RI to focus on three key systemic risks: climate change, nature and biodiversity loss, and social inequality.
- Published research into Queen Anne's Bounty and its historic links to the transatlantic chattel slave trade, alongside a commitment of £100mn in funding to a programme of investment, research and engagement on the issue.

CLIMATE

- In December 2022, we achieved an early stage draft allocation for 1,500 new net zero homes in Epsom. This would be our first net zero housing development.
- Worked with a range of stakeholders to make the 168-megawatt South Kyle windfarm in Ayrshire partially operational in late 2022. Once fully operational in 2023, it will have the capacity to power the equivalent of 130,000 homes and avoid 200,000 tonnes of CO_2 equivalent each year.
- As Chair of the UK Sustainable Investment and Finance Association (UKSIF) Policy Committee, we supported publication of UKSIF's report 'Delivering a Net-Zero Financial Centre: Recommendations from UKSIF's Net-Zero Inquiry' in May 2022, following an industry-wide consultation.

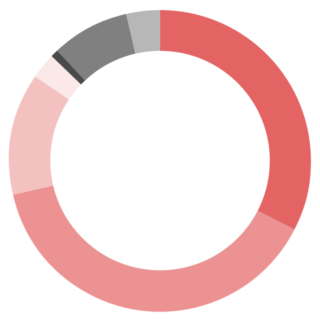
NATURE AND BIODIVERSITY

- Since 2022, 100% of our forests are certified as being managed in accordance with local best management practices and have been independently verified as adhering to strict environmental, social and economic standards.
- Worked with the other CofE National Investing Bodies (NIBs) to develop a Deforestation Policy in consultation with the Ethical Investment Advisory Group (EIAG), which was released in December 2022.
- In October 2022, we represented the Investor Policy Dialogue on Deforestation (IPDD) in Jakarta, with other investors to meet with key stakeholders to discuss how to advance sustainable finance in Indonesia and how institutional investors can support the country's efforts to reduce deforestation. In December 2022, the IPDD released its two-year outcomes report at COP 15.
- Supported the launch of Nature Action 100 (NA100), a new global engagement initiative which focuses on investors driving urgent action on the nature-related risks and dependencies in the companies they own. The Church Commissioners is an inaugural member.
- Played a lead role in the Steering Committee of the Finance Sector Deforestation Action (FSDA) group to develop a collaborative engagement on deforestation, including creating investor expectations for companies. The initiative was launched at New York Climate week.

SOCIAL INEQUALITY

- Worked with other NIBs to develop a Big Tech Policy, following a three-year review by the EIAG, and continued engagement with Big Tech companies on Human Rights and Ethical Artificial Intelligence.
- Worked with the other NIBs to develop a cohesive approach in response to the war in Ukraine, based on our human rights policy and the UN Guiding Principles on Business and Human Rights.
- We were the first asset owner to become an ally of the Task Force on Inequality-related Financial Disclosures (TIFD).

Assets by geography 31 December 2022



UK	32.7%
North America	38.7%
Europe and Middle East	13.3%
Asia ex. Japan	2.6%
Japan	1.0%
Emerging markets	8.3%
Global	3.4%
Total	100.0%

Awards

The British Private Equity & Venture Capital Association's (BVCA) Annual Excellence in ESG Awards: Special recognition for the category 'LPs of all sizes' in 2022.

WHO WE ARE AND WHAT WE BELIEVE

The Church Commissioners, a charitable body established in 1948, has a strategic focus to support the Church of England's mission and ministry, particularly in areas of need and opportunity, in perpetuity. We do this through the effective, sustainable management of the CofE's endowment fund – some £10.3bn (as of December 2022).

We are a unique investment body, with two duties. We must create long-term financial returns to fund the work of the CofE, including activities through CofE churches, cathedrals and dioceses. And we must make sure that the way we invest, and what we invest in, brings benefits to the wider world in a way that consistently shows positive outcomes in its contributions to the common good. In this way, our assets can work hardest to change things for the better, as we seek to make the Church's teachings and values real in all our work.

OUR BENEFICIARIES

The investment activities of the Church Commissioners are governed by an Assets Committee, which has exclusive power and a duty to act in all matters relating to the management of the Church Commissioners' assets, subject to any general rules made by the Board of Governors. Because of our unique structure, some of the Commissioners are also representatives of our beneficiaries, and we are also accountable to General Synod, which elects a certain number of Commissioners. The RI team reports regularly throughout the year to the Assets Committee on our stewardship approach and activities including, for example: our approach to net zero, ESG integration and manager relationships, climate-related restrictions, and the social and environmental impact of our investments.

Our Assets Committee meetings offer the opportunity for a thorough debate of the key issues and through these interactions our trustees' feedback is provided, and decisions are made. As a result of the honest and informed feedback that we receive from our trustees, we are confident that our stewardship reporting is fair, balanced and understandable.

We regularly source expert external opinion for areas of new development and new investment strategies. This complements the strength of diligence, research and risk assessment undertaken internally. The Assets Committee also receives commentary from specialist advisors when reviewing the investment outlook and the fund's asset allocation.

Farmland and villages in the Cotswolds

We have assessed the effectiveness of our stewardship approach. This approach is grounded in the ethical policies we adopt as a faith-based investor, and in our overarching investment policy in the context of delivering the fund's long-term target investment return. We believe that taking account of ESG issues is an intrinsic part of being a good investor across all asset classes and hold this belief for both ethical and financial reasons. Because of this belief, we are comfortable that we are delivering in the best interest of our beneficiaries. Our beneficiaries are those who benefit from the distribution of our returns.

Our returns contribute to the common good and support the CofE's ministry by:

- Funding mission activities such as community development projects in low income areas.
- Supporting ministry costs in dioceses with fewer resources.
- Paying archbishops, bishops' ministry and some cathedral costs.
- Administering the legal framework for reorganising parishes and settling the future of closed church buildings.
- Paying clergy pensions for service prior to 1998. At the end of 2021 (the most recent full valuation) there were:
  - 12,935 pensions in payment (9,328 pensioners, 3,594 surviving spouses and 13 children's pensions).
  - 1,891 active members (i.e., clergy still in stipendiary ministry who have some service before 1998).
  - 1,013 deferred pensioners (i.e., people below normal retirement age who have some service pre-1998).

WHO WE ARE AND WHAT WE BELIEVE
continued

STAKEHOLDERS

Our stakeholders are varied and can be as broad as the entire Anglican Communion, which has approximately 85 million members spread across the world, and all other faith-based investors who may look to the CofE to see how we approach ethical investing. We regularly engage with a wide range of CofE stakeholders representing our beneficiaries, on a variety of salient issues, through in-person outreach and written correspondence. These views and priorities are discussed with senior management and our Assets Committee in setting our stewardship preferences.

KEY STAKEHOLDERS WHOSE VIEWS WE TAKE INTO ACCOUNT ARE:

- **General Synod** – Synod members, church parishioners and members of dioceses and cathedrals have the opportunity to ask the Church Commissioners questions about any aspect of its work at every Synod meeting. In addition, we present our Annual Report to the Synod and it can be tabled for debate when the General Synod's Business Committee puts it on the agenda. We also voluntarily make use of fringe meetings during General Synod to explain topical aspects of our work, or at times (such as the beginning of a new quinquennium after the new intake of Synod members) to give a more general overview of the Church Commissioners.

- **Environmental Working Group of the Church of England** – which works on net zero strategy and engagement with climate policy makers; (see: About our environment programme | The Church of England).

- **Lords Spiritual/House of Lords** (via bishops on our Board of Governors and via the Church's Faith and Public Life team).

- **Parliament** – the Second Church Estates Commissioner responds to MPs' questions about our work (see: The Church of England in Parliament churchinparliament.org).

- **Civil society representatives and NGO groups** (see: Church Commissioners for England – useful documents | The Church of England).

WHO WE ARE AND WHAT WE BELIEVE
continued

RESEARCH INTO HISTORIC TRANSATLANTIC CHATTEL SLAVE TRADE LINKS

The Church Commissioners, in 2019, decided to conduct research into the source of the endowment fund it manages to gain an improved understanding of its history, to understand better its present and to continue to support the CofE's work and mission in the future as best it can. We worked with forensic accountants and academics to analyse early ledgers and other original documents from Queen Anne's Bounty, one of the Church Commissioners' predecessor funds, which was established in 1704.

Through that research, the Church Commissioners learned that its endowment had historic links to the transatlantic chattel slave trade. The Church Commissioners is deeply sorry for its predecessor fund's links with the transatlantic chattel slave trade.

What we know

In the 18th century, Queen Anne's Bounty invested significant amounts of its funds in the South Sea Company, which traded in enslaved people. Queen Anne's Bounty also received numerous benefactions, many of which are likely to have come from individuals linked to, or who profited from, transatlantic chattel slave trade and the plantation economy.

Queen Anne's Bounty was used to supplement the income of poor clergy. This was done either through buying land from which the clergy received the income or through an annuity stream paid by Queen Anne's Bounty.

Queen Anne's Bounty's funds were subsumed into the Church Commissioners' endowment when it was created in 1948, perpetuating the legacy of Queen Anne's Bounty's linkages to the transatlantic chattel slave trade.

Every human being is made in the image of God, and Jesus teaches us that he came so that we all may have life in all its fullness. Chattel slavery, where people made in the image of God have their freedom taken away to be owned and exploited for profit, was, and continues to be, a shameful and horrific sin.

Our response

In response to the findings, the Church Commissioners' Board has committed itself to trying to address some of the past wrongs by investing in a better future. It will seek to do this through committing £100mn of funding, delivered over the nine years commencing in 2023, to a programme of investment, research and engagement.

A new oversight group will be formed during 2023, with significant membership from communities impacted by the historic transatlantic chattel slave trade. This group will work with the Church Commissioners on shaping and delivering the response, listening widely to ensure this work is done sensitively and with accountability.

The response will comprise:

- Establishing a new impact investment fund to invest for a better and fairer future for all, particularly for communities affected by the historic slave trade. It is hoped this fund will grow over time, reinvesting returns to enable it to have a positive legacy that will exist in perpetuity, and with the potential for other institutions to participate, further enabling growth in the size and impact of the fund.
- Growth in the impact fund will also enable grant funding for projects focused on improving opportunities for communities adversely impacted by the historic slave trade.
- Further research, including into the Church Commissioners' history, supporting dioceses, cathedrals and parishes to research and address their historic slave trade links, and sharing best practice with other organisations researching their slave trade legacies. As an immediate action, in early 2023, Lambeth Palace Library hosted an exhibition with items from its archives that have links to the historic transatlantic chattel slave trade.
- The Church Commissioners will also continue to use its voice as a responsible investor to address and combat modern slavery and human rights violations, and to seek to address injustice and inequalities.

WHO WE ARE AND WHAT WE BELIEVE
continued

A RESPONSIBLE, ETHICAL INVESTOR

Our goal is to be at the forefront of responsible investment. Being a responsible investor means being an active one, using the power of our voice to encourage companies to make the changes the world needs – and showing outcomes in this regard to our stakeholders and the wider public. Responsible investment is about holding a diversified portfolio across asset classes, investing for the long term and integrating ESG issues into everything we do.

Our approach is shaped by advice from the EIAG, which also provides advice to all of the NIBs, including the Church of England Pensions Board and CBF Church of England Funds. The role of the EIAG is to provide practical and timely ethical investment advice to enable the NIBs to invest in a way that is Christian and distinctly Anglican, reflecting the views of the Church Commissioners' beneficiaries and key stakeholders. By interpreting Scripture, the Christian tradition and reason, the EIAG's guidance allows the NIBs to address and respond to complex ethical questions, as well as systemic ESG risks posed by their investments in a way that is grounded in Christian teaching and tradition. We have an ongoing, iterative dialogue with the EIAG to review and advise on current and future ethical investment policies. In 2022, this included our Big Tech and Deforestation policies, which are referred to in this report.

The Church Commissioners is a universal assets owner. This means that the value of the fund is interlinked with the global economy and macroeconomic risks. Therefore, the Church Commissioners is dependent on social and environmental stability over the long term. This is amplified for us as a faith-based investor with the obligation to provide returns in perpetuity. It is also important to note that this obligation in part drives our active management of the portfolio – this distinguishes us from pension funds who may have a much larger allocation towards passive strategies.

In addition, the fourth and fifth Marks of Mission serve as foundations for the world that we seek and therefore the ethical framework within which the Church Commissioners invests. This strong ethical foundation is part of the reason our voice and seat at the table is outsized relative to our Assets Under Management (AUM).

PEOPLE AND PLANET: A SYSTEMIC RISK LENS

As we have worked on our thematic priorities of 'Respect for People' and 'Respect for the Planet' over the past two years, so too have we advanced our thinking in these areas, leading us to see the world through a lens of systemic risk. This approach seeks to understand and engage positively with the systemic challenges of climate change, nature and biodiversity loss and growing social inequality. We believe that having a robust approach to addressing these issues is an intrinsic part of being a good investor across all asset classes. We act with the conviction that ethical and financial imperatives can and should co-exist in this context. Moreover, our approach to 'Respect for People and Planet' aligns our activities to the Five Marks of Mission.

Our approach to Respect for the Planet is driven by the Fifth Mark of Mission, "to strive to safeguard the integrity of creation, and sustain and renew the life of the earth", and guided by the recognition that humanity, and by extension financial markets, do not adequately value all of the services and resources that the natural world currently provides. This leads to a range of environmental issues that pose significant risks not only for economic stability and future financial returns, but also the survival of our global ecosystem.

THE FIVE MARKS OF MISSION

The Five Marks of Mission have been developed by the Anglican Consultative Council since 1984. Since then, they have been widely adopted as an understanding of what contemporary mission is about. The marks were adopted by the General Synod of the Church of England in 1996 and many dioceses and other denominations used them as the basis of action plans and creative mission ideas. They are as follows:

1. To proclaim the Good News of the Kingdom.
2. To teach, baptise and nurture new believers.
3. To respond to human need by loving service.
4. To seek to transform unjust structures of society, to challenge violence of every kind and to pursue peace and reconciliation.
5. To strive to safeguard the integrity of creation and sustain and renew the life of the earth and to seek to address injustice and inequalities.

WHO WE ARE AND WHAT WE BELIEVE
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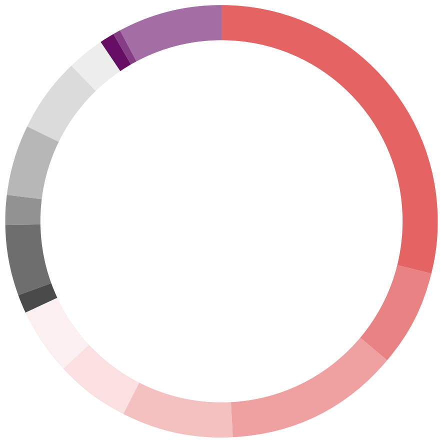
Respect for People is an intrinsic part of the Fourth Mark of Mission, “to seek to transform unjust structures of society, to challenge violence of every kind and to pursue peace and reconciliation” and is a critical aspect of addressing the systemic risks of climate change, nature and biodiversity loss and, especially, social inequality. Underpinning our approach is the expectation that investee companies respect human rights. Respect for human rights enables the management of risks and impacts on people during the transition to tech-enabled, net zero, nature-positive economies, and provides the starting point for companies to help address social inequalities via their impacts on workers, consumers and broader society.

Further to the above, we believe that good governance is at the heart of successful business and investment. As responsible investors, we believe that robust consideration of corporate governance practices underpins companies’ sustainable wealth creation, protection of shareholders’ capital, and the integrity and attractiveness of investment.

Breakdown of assets under management 31 December 2022



Public equities	28.9%
Defensive equities	7.4%
Absolute return	13.0%
Private equity	8.2%
Venture capital	5.8%
Timberland	4.9%
Infrastructure	1.5%
Credit strategies	5.2%
Commercial	2.3%
Residential	5.1%
Rural	5.6%
Strategic land	2.8%
Indirect property	1.1%
Portfolio hedges	0.6%
Cash, and Cash-like assets	7.6%

26.7%

proportion of internally managed assets 31 December 2022
(31 December 2021: 25.8%)

Bishopstone Farms from our Farmland portfolio

OUR APPROACH

"The Church Commissioners' ambition is to be at the forefront, globally, of responsible investment."

INTRODUCTION TO OUR APPROACH

The Church Commissioners' responsible investment approach seeks to address the complexity of the world in which we invest, by taking a systemic approach to systemic issues.

The Church Commissioners' RI team considers it a privilege to help steward the CofE's endowment fund. We come to work every day aiming to apply our RI Policy, focused on people and the planet, and grounded in ethical and theological principles, to the best of our abilities.

Like other responsible investors we have ethical guidelines and policies. Moreover, as we constantly seek to innovate our approach to RI, the same is true for the values of the seven National Church Institutions (NCIs), which underpin the Church Commissioners' ethical guidelines and policies. In 2022 the NCIs began a consultation across teams to expand the set of values, which now comprise of the following: Strive for Excellence, Show Compassion, Respect Others, Collaborate, and Act with Integrity. These will sit beneath the NCIs' purpose to serve the mission and ministries of the Church, augmented by the Archbishops' call for a simpler, humbler, bolder Church. The expanded set of values and generous behaviours will be rolled out across the NCIs in 2023.

At the end of 2022, 62 people worked for the Church Commissioners' Investment Division. Within this division there were seven people dedicated to the RI team – the Head of RI reports to the Chief Investment Officer. Other teams within the Investment Division include our Securities team which oversees both public markets and private market investments, our Real Assets team which manages our land and real estate holdings, and our Operational teams which cover investment risk and performance, portfolio operations, legal, systems and investment accounting. The leads of each Investment Division team meet weekly and are also joined by the CIO, Head of HR and the Deputy Head of Real Assets.

The RI team works collaboratively with the other teams in the Investment Division to ensure everything we do, including risk management, direct and indirect investment, divestment and property management – is aligned with our responsible investing values and approach. We work together with Investment Division colleagues to respond to questions from General Synod, the Church's legislature – one of our most important stakeholders.

Current RI team members bring varied and complementary professional experience, on topics including environmental law, human rights, natural capital, private equity, impact and corporate governance. In 2022 we updated the structure of our team, onboarding two senior thematic leads for net zero and social issues, as well as two RI analysts.

Additionally, a Sustainability Lead for Real Assets was appointed, along with a Sustainability Manager for Real Assets. Although these roles sit within the Real Assets team, they work in close collaboration with RI team members when it comes to stewardship of our Real Assets.

This additional resourcing enabled us to expand our stewardship activities across the Church Commissioners' various portfolios in 2022 and will help ensure the RI team has the expertise to deliver on our commitments to people, the planet and the net zero transition. In early 2023, we recruited a climate data analyst to assist in bringing RI and climate data into the organisation-wide IT systems.

REVISIONS TO OUR RESPONSIBLE INVESTMENT POLICY

We believe that taking account of ESG issues is an intrinsic part of being a good investor. We hold this belief for both ethical and financial reasons.

The field of responsible investment continues to rapidly develop. What was considered leading practice a few years ago may seem outdated today. To keep pace, our RI team reviewed and further refined our RI Policy in 2022. The outcome – a lens of systemic risks through which we view the world – was approved by our Assets Committee in November 2022.

We consider climate change, nature and biodiversity loss and social inequality as systemic risks that will likely cause significant disruption to the financial system, the economy and wider society; effects that are already being felt today. These risks may be thought of as distinct and separate, but in our view, they are interconnected and interdependent. Examples of where we seek to affect positive change at these intersections include our work with companies on just transition planning, where de-carbonisation of the global economy is expected to have a significant impact on labour markets and people's livelihoods if not managed correctly. Additionally, our policy on preventing deforestation articulates the crucial role that forests play in absorbing carbon emissions and mitigating against the worst impacts of climate change.

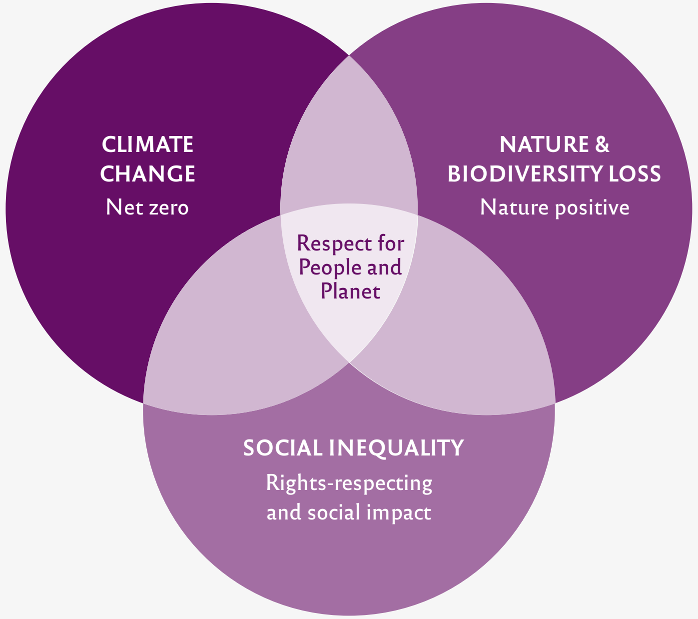
As we have elevated our understanding of risk to the systemic level, so have we evolved our approach to acting on these challenges, placing greater emphasis and focus on external collaboration. Instead of addressing stewardship issues solely on a company-by-company basis, we now seek to take action through involvement in collective initiatives, engaging with our managers and interacting with policy makers. These activities are detailed throughout this report.

We see opportunities to encourage corporate and regulatory/policy action that tackle these multiple systemic challenges and unlock significant opportunities for sustainable value creation and social development. This also applies to actions we can take to enhance the positive impact of our own portfolio through management of our direct and indirect holdings and any new investments made.

Furthermore, there is growing recognition that not only are all companies and investors affected by risks from

OUR APPROACH TO RI

1. The policies and responsibilities which determine our minimum activities
   - Ethical Policies as advised by the EIAG
   - Church Commissioners' Investment Policy
2. The primary codes and standards we sign up to, which we base our activities on
   - PRI
   - Stewardship Code
   - Paris Alignment
3. Systemic risk and opportunity
   - Increase positive outcomes, reduce negative outcomes and manage the exposure to risk
4. Our framework: Respect for People and Planet interlinkages and interdependence



5. How we achieve our goals
   - Ethical exclusions
   - Active ownership
   - Advocacy and collaboration
   - ESG outcomes
   - Transparent reporting

REVISIONS TO OUR RESPONSIBLE INVESTMENT POLICY
continued

ESG factors but also that their actions and investment decisions can have positive and negative impacts on people and planet (so-called double materiality). Over the last several decades, capital markets have prioritised shorter-term financial returns. One effect of this is that social and environmental thresholds have been breached to the detriment of long-term value and stability. Aligning interests and incentives is therefore crucial to ensuring long-term environmental and social stability, benefiting the financial system as well as people and our societies.

In furtherance of our commitment to responsible stewardship, we have signed up and adhere to the UN-backed Principles for Responsible Investment (PRI), the UK's 2020 Stewardship Code and are committed to being aligned to the Paris Agreement.

The solutions to the challenges posed by the systemic risks of climate change, nature and biodiversity loss and social inequality are complex, interlinked and interdependent. Every organisation will have some positive and some negative outcomes and every organisation is exposed to risks. Neither the real world nor the investment world is black and white; both are grey. Therefore, a more nuanced approach is needed. Accordingly, the Church Commissioners' RI team is taking the following actions:

ACTIONS TO BE TAKEN IN RELATION TO OUR RI STRATEGY

	INVESTMENT PORTFOLIO	POLICYMAKERS AND REGULATORS	INDUSTRY ORGS AND STANDARD-SETTERS	WIDER STAKEHOLDERS
ALIGN OUR PROCESSES	Have best practice policies and processes. Manager due diligence and requirements. Allocate capital to managers who factor in sustainability in their investment decisions. Request reporting from managers. Divestment in certain circumstances.	Sign statements to policymakers.	Sign up to industry groups and initiatives, sign open letters, adopt recommendations.	Transparent reporting on policies, processes and targets. Participate in and speak at industry events.
ENGAGE	Engage with managers on sustainability throughout selection, appointment and monitoring. Engage with tenants on clauses in contracts. Engage directly with companies in public markets. Engage in bilateral dialogue or collaboratively.	Engage directly with regulators and policymakers. Participate in policy decision-making processes through taskforces and direct links to government.	Participate actively in the development of recommendations and engage with industry organisations.	Engage with other market participants to adopt best practice. Keep dialogue with other stakeholders to educate on best practice.
GROW NEW OR UNDERSUPPLIED MARKETS	Invest in funds/assets that intentionally seek solutions (e.g., qualifying investments for sustainability bond). Engage with existing investments for them to provide solutions (e.g., regenerative farming) – overlap with engagement. Requirements for assets when divested (real assets).			

REVISIONS TO OUR RESPONSIBLE INVESTMENT POLICY
continued

RESPONSIBLE STEWARDSHIP OF REAL ASSETS

The Real Asset portfolio makes up about a quarter of the overall investment portfolio, involving a diverse range of asset types, and is valued at approximately £2.5bn. These asset types are grouped into two broad categories: Land (60% of the portfolio's total value) and Built Environment and Infrastructure (40%). Our Land and Built Environment Investments are estimated to be absorbing or avoiding more greenhouse gases (GHGs) than they are emitting.

Within Land, we invest in farming, sustainable forestry and land to be developed mostly for housing and community infrastructure. The core investment rationales are rental income, the periodic sale of certified timber and selective land sales. Built Environment & Infrastructure assets are made up of commercial property and residential properties along with infrastructure investments that are largely focused on renewable energy and transportation. By value, about 40% of these assets are directly managed and leased by us. The rest of the portfolio is either let on long leases (typically over 100 years) that provide long-term operational control to the leaseholder, or is invested through specialist fund managers. Our approach to stewardship of our Real Assets portfolio is underpinned by four elements that are consistent with our RI approach to systemic risk.

PHILOSOPHY

Our belief is that long-term stewardship and long-term value are interconnected and mutually supportive. Consequently, we are always thinking about the risks of inaction and how might we need to invest to maintain long-term value.

OBJECTIVE

Our objective is to invest in a way that supports change and has real world effect. This means, for example, remaining active and committed investors within farming rather than simply divesting to reduce the emissions footprint of our farmland portfolio. We also support our tenants, peers and wider industry to understand and implement the best steps for creating real and positive environmental change.

APPROACH

Our approach focuses on key spheres of influence where, as large-scale landlords and landowners, we are best placed to affect change. These spheres differ depending on the asset in question. Therefore, we place a high priority on engaging and collaborating with different stakeholders to help shape, support and share the best approaches for long-term stewardship.

ACTION

We target initiatives and investment decisions that have the greatest impact in both supporting asset and wider systemic transition whilst operating within our fiduciary constraints and charitable purpose. Moreover, our focus is on active engagement and collaboration with stakeholders, managers, industry and regulators, as well as robust governance, screening and capital investment.

We seek to understand the challenges and complexities that come with being a diverse asset owner. Overall, there is recognition that as each asset class and investment is different, so too will be the potential (and stage) of its transition to net zero. It is important to acknowledge this uncertainty, and the range of legitimate debates and challenges as a result. Overcoming these will require innovative approaches and a range of additional indicators, alongside key metrics such as annual carbon emissions, to track how our Real Assets portfolio affects people and the environment. We are currently developing these indicators – some of which may be less tangible – but we will still seek to quantify, monitor and benchmark. This has the potential to feel unsatisfactory in an environment that demands quantification. But we believe it is important to be upfront about the challenges and constraints that we face.

SUSTAINABILITY BOND

The money raised from both bonds will be invested on a long-term basis, enhancing the endowment's capital efficiency and allowing it to generate additional value, and thus helping us to sustain and grow the distributions we pay to our beneficiaries.

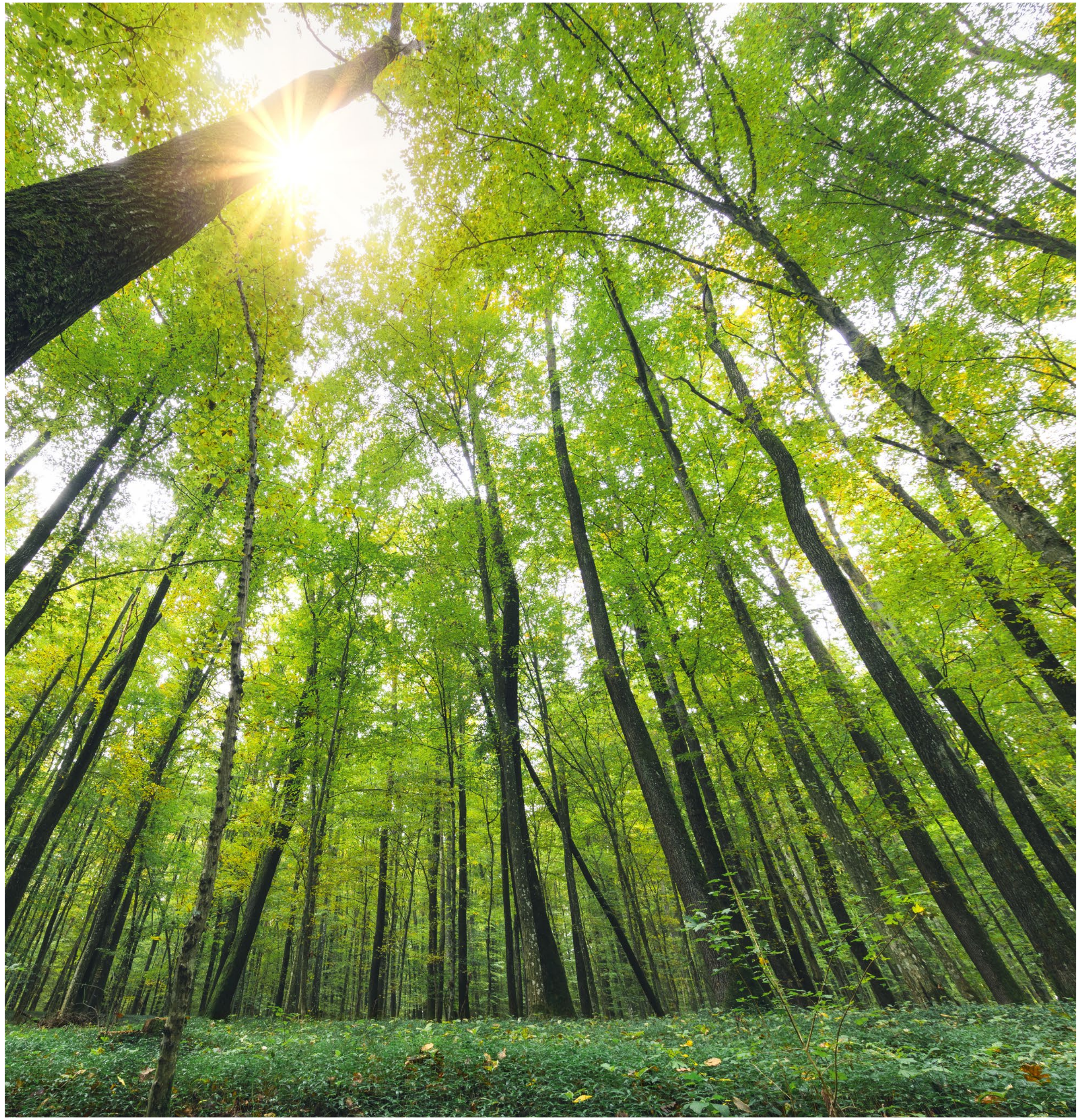
In July 2022, the Church Commissioners raised £550mn, made up of a £250mn sustainability bond with a 10-year maturity and a £300mn conventional bond with a 30-year maturity. The transaction received strong support from a broad range of institutional investors, and the bonds will pay interest at a rate of 3.25% and 3.625% for the 10-year and 30-year bonds respectively.

The money raised from both bonds will be invested on a long-term basis, enhancing the endowment's capital efficiency and allowing it to generate additional value and thus help us to sustain and grow the distributions we pay to our beneficiaries. The proceeds will be invested according to the Church Commissioners' RI approach, with the proceeds of the Sustainability Bond used solely to support eligible sustainable projects, as set out in the Church Commissioners' newly established Sustainable Financing Framework (SFF), which includes eligibility criteria for external managers as well as the underlying funds.

The Church Commissioners has a five-year window to invest the £250mn in eligible projects, which runs from July 2020 to July 2025. The eligible environmental and social activities include, but are not limited to:

- Renewable energy (e.g., wind or solar energy).
- Clean transportation (e.g., electric vehicle charging stations).
- Sustainably managed forests.
- Energy storage.
- Social housing.
- Financial inclusion.
- A Sustainable Finance Committee, chaired by the Church Commissioners' CIO, Tom Joy, governs how proceeds from the bond are allocated and used.

The Church Commissioners issued the first allocation and impact report in July 2023 for the use of proceeds, which can be found here. The Institutional Shareholder Services (ISS) has provided an external review of the report, which can be found here.



ESG INTEGRATION

We review the performance of our investment managers through our proprietary RI Manager Framework, which now includes diversity, equity and inclusion (DE&I) criteria, allowing us to further differentiate managers' approaches. Where we invest directly, we take account of all material ESG factors in our own investment assessments using our proprietary list of potential ESG issues. For example, we seek to manage ESG issues effectively across our direct real estate portfolio – commercial property, residential property, farmland, strategic land and forestry – to achieve outcomes consistent with both our investment management objectives and our ethical investment policies.

INTERNALLY MANAGED ASSETS

We incorporate ESG considerations into all asset classes, including property. We consider material environmental and social issues as part of our due diligence process, and we employ property managers after a tender process that includes ESG considerations such as health and safety, fire safety, disability non-discrimination, environmental and sustainability policies, quality standards, equal opportunities and data protection. We assess new direct property investments against our Property Investments Policy, checking property uses and tenants for any breaches of our ethical investment exclusions. Where cases are doubtful or involve uncertain interpretation, this is discussed with the Head of Responsible Investment to ensure adherence to the Church Commissioners' ethical policies, with further referral to its trustees possible.

EXTERNALLY MANAGED ASSETS

Some of our assets are managed through third party asset managers across asset classes including public and private equity, public and private credit, infrastructure, and absolute return.

We assess current and prospective managers across all asset classes against our proprietary RI Manager Framework, which scores managers across seven dimensions: RI Policy and governance; ESG integration; active ownership; climate change; RI reporting; assurance; and DE&I. Managers must meet minimum expectations in each category to qualify as investable.

For example, we will not invest with a manager where the investment team is solely one gender or ethnicity, or where its team lacks diversity and the manager is not actively taking steps to address this. Before deciding to not invest, we will engage with the manager to seek improvements. We also engage with managers who are further along their RI journey to improve their practices ahead of investing.

Regarding investment mandates, we place clear requirements in side-letters with some of our investment managers to integrate financially material ESG factors into their investment analysis and decision-making processes and ownership policies and practices. This will include integrating financially material climate change risks and opportunities into investment decisions and active ownership activities where appropriate.

The side letters also require managers to engage with investee companies on ESG issues when appropriate and to report back to the Church Commissioners on ESG issues and how ESG risks and opportunities have been integrated into investment decisions and active ownership activities.

CASE STUDY: live entertainment

The Church Commissioners undertook in-depth due diligence on a family-oriented US live entertainment business, offered by a private equity sponsor well-known to our own private equity team. We identified employee welfare as a potential risk factor given the high percentage of workers employed by the company on a temporary or part-time basis, with potential risks of low/inadequate pay, unsocial or irregular hours and weaker employer-provided benefits and workplace protections. The sponsor acknowledged that this was a risk that it had not taken into account in its due diligence and undertook a review of the situation at our instigation.

As a result of the review, it was discovered that risks associated with the firm's employment model were in fact low and that there was a straightforward pathway to their mitigation. In the event, the Church Commissioners decided not to proceed with the opportunity on investment grounds. The sponsor thanked the Church Commissioners for identifying a potential risk factor it had originally overlooked.

ESG INTEGRATION
continue

CASE STUDY: convertible bonds

We are invested with an absolute return manager focused on the convertible bond market (a hybrid instrument with properties of both equity and credit). We worked with the manager over the first half of 2022 to establish the firm's first ESG share class, which encompasses our restricted equity list, so we have no exposure to restricted equities. We are now working with the manager to go one step further, integrating ESG criteria into the investment process to alter the makeup of the underlying investments, stripping out convertible bonds issued by ESG laggards and increasing the weight on those issues by ESG champions. We hope this will lead to the launch of another strategy in 2023 by that manager which other ESG-minded investors will be able to benefit from.

On rare occasions, managers may deviate from our stewardship policies and expectations. When this happens, we always engage the manager to understand their rationale for doing so and work with them to develop a satisfactory resolution.

Outcome

In February 2022, we engaged with a manager regarding its ownership of shares in a multinational mining company. This company had recently been restricted from investment by the Church Commissioners due to its stake in oil sands production. The manager disagreed with this action based on its analysis of future projections and conversations with the company. While the manager sold the position in accordance with our restricted list policy, the Church Commissioners engaged with the manager to better understand its conclusions compared to our own internal assessments. After a productive discussion, it was decided the company would remain restricted, though the manager continued to hold the position in other client accounts.

In 2022, we started a process of reviewing the RI Manager Framework. The first phase was to streamline the process across the organisation and in 2023, a key priority of the team is to review and update the content of the RI Manager Framework. We have also signed up to the ESG Data Convergence Initiative, which is an investor-led initiative which aims to streamline the ESG data asks by limited partners (LPs) to general partners (GPs) in private equity. GPs that sign up commit to collecting and reporting on 15 metrics for their underlying portfolio companies.

In addition to individual engagement with managers, in 2022 we joined the newly formed Institutional Investors Group on Climate Change (IIGCC) working group on Net Zero Stewardship Alignment between asset owners and asset managers, which aims to standardise the asks from managers on net zero stewardship while increasing transparency to asset owners.

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION

LISTED EQUITY ENGAGEMENT

We believe, based on our own experience and assessment of academic studies, that engagement is the most effective way for investors, like the Church Commissioners, to bring about substantial improvements in a company's performance on ESG issues. It can also lead to an increase in shareholder returns. This is why we engage with companies, rather than immediately divesting, if a potentially remediable issue exists or emerges. The track record of groups such as Climate Action 100+ (CA100+), a coalition of more than 700 investors with $68tn in assets (and of which the Church Commissioners is a member) further supports our conviction that engagement works. In 2022, CA100+ said that 75% of the companies it was targeting had set net zero targets, up from 50% in 2021.

However, if it becomes clear that our engagement efforts or those of our third party investment managers are not leading to improvement, we reserve the right to divest from those companies. This is in line with a 2018 commitment to the General Synod by the NIBs to engage with and disinvest from fossil fuel companies that are not making progress to align with the goals of the Paris Agreement by 2023.

We focus our engagement priorities on material ESG issues identified after consultation with our stakeholders including our Investment team, Assets Committee and Board, the other NIBs, EIAG and wider Church stakeholders, as well as our global collaboration partners, and with the approval and oversight of our Assets Committee.

ENGAGEMENT OBJECTIVES

We have developed well informed and precise objectives for engagement with our listed holdings under our key focus areas relating to systemic risks (climate change, nature and biodiversity loss, and social inequality) and human rights including:

- **Climate change.** We have set carbon emissions targets each year for key high-emitting companies under our five-year (2018-2023) climate change programme. These were agreed between the NIBs as a series of hurdles to encourage companies to meet our requirements. The hurdles specify reductions to companies' carbon emission profiles across their value chain in alignment with the Paris Agreement.
- **Nature and biodiversity loss.** In 2022, we worked as part of the investor collaboration Financial Sector Deforestation Action (FSDA) to set specific expectations of companies in relation to ending deforestation.
- **Social inequality.** In 2022, we became allies of the World Benchmarking Alliance's collaborative engagement programme on AI Ethics, with discrete targets on companies to publish public commitments to responsible AI approaches within 12 months.
- **Human rights.** Our controversies process identifies companies causing, contributing or linked to violations of international norms, with subsequent engagements focused on ensuring the company addresses the root causes of the problem and (where necessary) provides remedy to the affected people.

In 2022, our in-house team carried out 96 direct engagements with 75 companies – mostly written correspondence (letters or emails) or meetings with relevant individuals from the company's Board or senior management. The main topics covered by these engagements (which consisted of both collaborative and independent efforts) were climate change, human rights, deforestation, just transition and AI ethics.

ESCALATION APPROACH

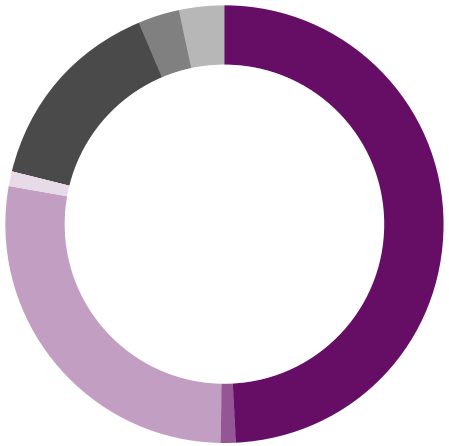
Our RI team seeks to influence corporate behaviour in a variety of different ways. We engage discreetly with companies to build rapport and encourage them to meet our precise engagement objectives. Where this process fails to achieve the desired results, we will escalate via the following avenues:

- Proxy voting against management resolutions.
- Speaking publicly and engaging with the press.
- Attending and speaking at AGMs.
- Filing shareholder resolutions.
- Divestment.

Similarly, our RI Manager Framework provides guidance to managers on our expectations for engagement and escalation during active ownership.

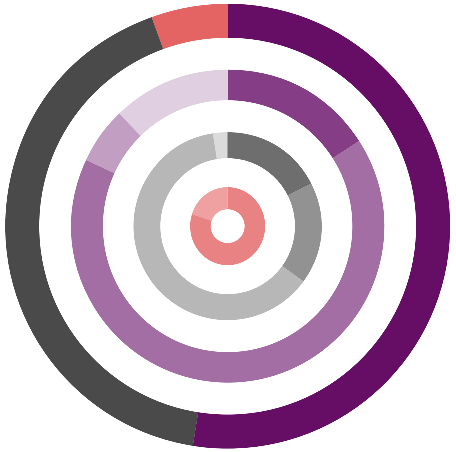
DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION
continued

Company engagements by geography



North America	49.5%
South America	1.1%
Europe	27.4%
Africa	1.1%
Asia	14.7%
Australia	3.2%
Unknown	3.2%

Company engagements split by themes and topics



Environmental	52.6%
Social	42.1%
Governance	5.3%

Environmental engagements by theme

CA100+ specific	16.0%
Climate change	66.0%
Biodiversity	6.0%
Deforestation	12.0%

Social engagements by theme

AI ethics	17.5%
Human rights	17.5%
Just transition	62.5%
Modern slavery	2.5%

Governance engagements by theme

Governance	80.0%
Gender diversity	20.0%

CONTROVERSIES PROCESS

The Church Commissioners conducts a quarterly controversies screen of our public equity portfolio for breaches of international norms and human rights, using data from respected service providers MSCI and ISS to support our ESG screening efforts. This entails a complete screen of our holdings to ensure that material controversies at portfolio companies involving breaches of international norms and human rights are identified.

Where issues are identified, we carry out more detailed due diligence, and then begin an engagement process with the companies. The NIBs' Human Rights Policy and Controversies Framework has been used to support the approach taken on major geopolitical issues and corporate engagements as well as to support a significant number of engagements with listed companies.

In line with our Human Rights Policy, the controversies screen is part of our human rights due diligence process, which identifies where our investments may be causing, contributing or linked to human rights impacts. Where issues are identified, we aim to engage with the companies. As the NIBs share the same approach to controversies, engagements are coordinated and frequently collaborative. Where a satisfactory outcome is not achieved via engagement, we will consider divestment.

Outcome

Following a three-year engagement process, we divested from one company and restricted it from further investment as the engagement failed to lead to sufficient improvements in the company's approach to social and environmental issues. Two further companies were previously identified through the controversies process, and we continued to engage with them in 2022. One, a multinational extractives company, has been escalated to board-level discussions on corporate culture (non-executive director) and the approach to security and human rights at the company's international operations.

A decision was made in early 2023 to exclude the company based on the latest engagements with the relevant directors. We will engage with the other company in 2023, focusing on their approach to managing human rights.

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION
continued

SOVEREIGN RISK: RUSSIA-UKRAINE CONFLICT

Russia's invasion of Ukraine in 2022 and the resulting war is the largest armed conflict in Europe since 1945. Beyond the suffering caused to the people of Ukraine and the subsequent humanitarian crisis, disruption to energy flows and agricultural exports has impacted upon energy and food security globally, while the ramifications for geopolitics and international security will be felt for years to come.

As an initial response to the attack on Ukraine by Russia, and supporting the sanctions announced by the UK and other governments, the Church Commissioners issued instructions to its managers to exit any direct holdings in Russian companies in accordance with the relevant legal and regulatory frameworks and to make no further investments in Russian companies. Russian sovereign debt was already restricted through our Oppressive Regimes methodology.

Due to our ethical restrictions, for example defence companies, and our instructions to exit from all Russian companies, our exposure to the conflict was largely limited to non-Russian companies with business interests in Russia. We screened our holdings for connections to the conflict and assessed how they were responding. We focused on what type of activities, products and services the companies were engaged in and whether exiting Russia would have adverse consequences, guided by the UN Guiding Principles on Business and Human Rights and lessons learned on 'responsible exit' from situations like the 2021 military coup in Myanmar. Due to the reliance of the Russian state on the oil and gas sector, we prioritised subsequent company engagements on those oil and gas companies that had not yet made commitments to withdraw from Russia.

Internally, we have used the Russia-Ukraine conflict to drive discussions about conflict more broadly and what approaches are needed to understand exposures to and implications of future and ongoing conflicts and wars. We have liaised with investors, academics and civil society groups on 'active ownership in times of conflict'. It became clear in this process that there are competence gaps, particularly in relation to asset managers and conflict-sensitive human rights due diligence (such as what to do before, during and after conflict). We aim to support the development of tools that will help asset managers to conduct conflict-sensitive human rights due diligence, to assist both the management of future market-risks and to help understand the linkages of holdings to conflict risks.

COLLABORATIVE EFFORTS AND POLICY ENGAGEMENT

We believe that good stewardship and the application of our RI principles are drivers of long-term, sustainable performance and therefore contribute to mitigating risk. Nonetheless we are cognisant of systemic, market-wide risks. This is why, in addition to our own direct engagement, we work as part of collaborative initiatives with other stakeholders, such as investors, experts and non-governmental organisations (NGOs), to influence policy makers in responding to market-wide risks. We also selectively support public policy statements published in the media, in cases where we believe our voice can contribute to a solution and which are aligned with our duties as an investor.

Through our collaborations with others, as well as our public policy engagements, we have been effective at addressing systematic risk despite being an asset owner with relatively small AUM. Detailed examples of these successful efforts are set out later in this report. These include CA100+; National Trust Land Owners Initiative; IPDD; FSDA; NZAOA; the UK Sustainable Finance and Investment Association (UKSIF); IIGCC; the Find It, Fix It, Prevent It modern slavery investor initiative; TIFD; the Financing a Just Transition Alliance (FJTA); and investor engagement on Big Tech and human rights.

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION
continued

EXPANDING OUR ENGAGEMENT REACH

In 2022, we appointed Columbia Threadneedle Investments (CTI) as our external engagement provider to support engagement with companies on a wide range of ESG issues, complementing the work of our internal team. This service amplifies our stewardship activity, ensuring appropriate resourcing and increasing our sectoral, thematic and geographical reach and influence.

Under CTI's approach, once a company is selected for engagement, engagement 'Objectives' are defined on a case-by-case basis for each individual company. Progress against these objectives is then tracked to assess achievements ('Milestones') and to determine next steps.

In establishing objectives, the determining factor for CTI is the quality of the company's management of the relevant ESG risks, compared to industry and regional best practice. Some objectives set by CTI may be very specific (such as calling on the company to make a key Board committee independent; publishing a policy, such as a human rights policy; or supporting a specific initiative such as the TCFD). More often, however, the objective covers a wider aim, such as asking the company to review the effectiveness of its Board or to establish a credible and ambitious climate change strategy.

In 2022, CTI engaged on our behalf with 271 companies from 26 different countries. Of those engagements, 70% were with North American companies, 16% were with European companies and 10% were with companies based in Asia (excluding Japan). The main thematic focus of those engagements included climate change, environmental stewardship, labour standards and human rights. Details of some of these engagements are confidential to CTI.

CASE STUDY: Uber

CTI engaged with the ride-share and food delivery company Uber Technologies Inc. Uber has been at the centre of a recent series of alleged controversies, which include neglecting the safety of its drivers and passengers, employing dubious political lobbying tactics and being linked to undocumented migrant labour. CTI had a positive exchange with Uber's new head of ESG, however the company has not yet responded to CTI's request to disclose further information and data on the relevant controversies. CTI will seek to have another call with Uber in 2023, before considering whether escalation routes will become necessary if the company continues to be slow in responding.

CASE STUDY: financial services

CTI engaged with a global financial services firm on matters including fossil fuel financing, executive remuneration ('say-on-pay') and the creation of an independent board chair. Several of these topics were also the subject of shareholder proposals. Over the course of discussions CTI found the company to be recalcitrant, hence CTI voted in favour of all shareholder proposed resolutions on these topics. CTI will continue to engage the company and emphasise the importance of climate risk to shareholder value and sound governance practices.

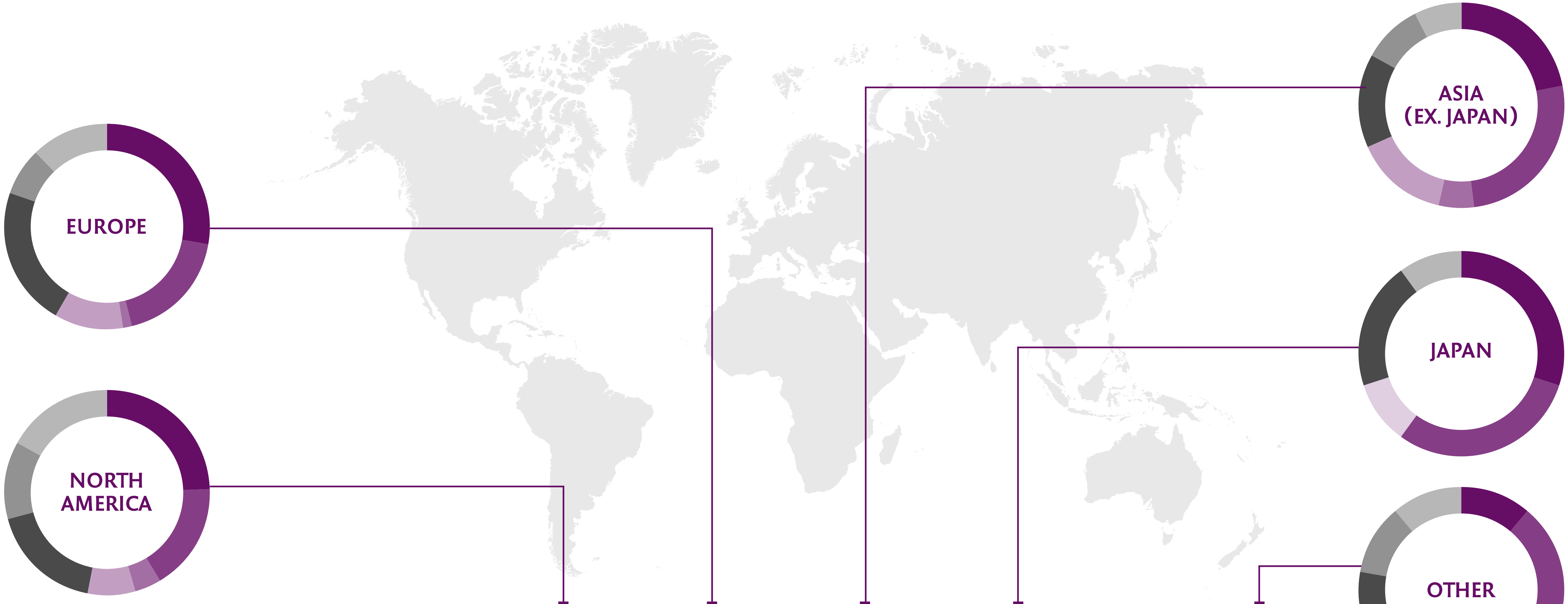
CASE STUDY: RWE

CTI engaged with electric utility company RWE AG. As a result of Russia's invasion of Ukraine, RWE has been mandated by the German government to re-open some of its coal-fired power plants until March 2024. In light of this, CTI has set clear expectations for the company to phase out these re-opened power plants after 2024 and resubmit their science-based target to be 1.5 degrees aligned once the German government brings forward the coal phase out date. RWE has been open to engagement and re-assured CTI that their short-term Capex targets for renewables is likely to increase.

CASE STUDY: online retailer

CTI has held multiple discussions with a large online retailer, urging the company to commit to negotiating with unions in good faith and recommending that it improve disclosure of how employees can exercise their labour rights. In a recent dialogue, CTI also encouraged the company to increase transparency of its efforts to remediate allegations of intimidation against employees involved in union activities. CTI will continue to engage the company both individually and collectively on these matters.

2022 issues engaged by geography



	NORTH AMERICA	EUROPE	ASIA (EX. JAPAN)	JAPAN	OTHER
Climate change	24.6%	28.0%	22.2%	30.0%	11.1%
Environmental stewardship	16.8%	18.3%	25.9%	30.0%	22.2%
Business conduct	4.2%	1.2%	5.6%	0.0%	11.1%
Human rights	7.6%	11.0%	14.8%	10.0%	22.2%
Labour standards	17.6%	22.0%	14.8%	20.0%	11.1%
Public health	12.3%	7.3%	9.3%	0.0%	11.1%
Corporate governance	16.8%	12.2%	7.4%	10.0%	11.1%

ETHICAL EXCLUSIONS

Our duty, along with our fellow NIBs, is to invest ethically, in a way that is distinctly Anglican. This means our approach must align with the Church's teaching and values. Our ethical policies apply across all asset classes. Our exclusions are agreed following consultation with the NIBs, based on our shared ethical investment policies and quarterly screenings of our portfolios, and informed by our engagements. We independently implement our exclusions with our managers and the operational oversight of the ethical exclusions is undertaken by the cross-NIBs Screening Committee, which reports to the NIBs' CEOs.

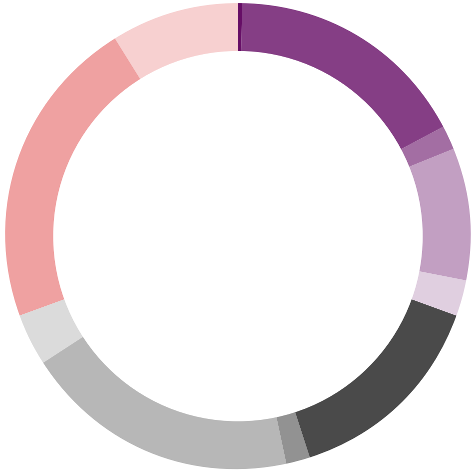
The Church Commissioners exclude from direct investments any companies that are involved in indiscriminate weaponry, conventional weaponry, non-military firearms, pornography, tobacco, alcohol, gambling, high-interest rate lending, extraction of thermal coal and production of oil from oil sands, subject to revenue thresholds. Every quarter, a universe of over 10,000 public equities is screened and updated for involvement in restricted activities, in partnership with MSCI.

Our approach to indirect investments is shaped by our Pooled Funds Policy. This sets parameters for our use of pooled funds and a cap on any indirect exposure to restricted investments. Additional exclusions, based on unsatisfactory engagements, or on specific issues such as the invasion of Ukraine, make up a hard-coded restricted list, which is implemented by our investment managers alongside the standard ethical policies screen.

Outcome

In 2022, we identified 435 companies that were in breach of our standard ethical policies. In addition, we included 121 companies on the hard-coded list, based on criteria including their insufficient transition pathways to net zero, their linkages to the invasion of Ukraine and the controversies process. The joint-NIBs Restricted List is used by some third party investors to replicate the NIBs' ethical restrictions in their own portfolios.

Ethical exclusions by number of companies



Adult entertainment	3
Alcohol	93
Cannabis	10
Climate change	51
Cluster munitions/landmines	14
Defence	80
Firearms	9
Gambling	107
Predatory lending	20
Special excluded	121
Tobacco	48

556

companies excluded from direct investment on ethical grounds

CREDIT AND VOTING

OUR 2022 VOTING IN NUMBERS:

19,418

votes cast (of which 94.3% were management resolutions)

19.7%

proportion of management resolutions we voted against or from which we withheld our support

>79.0%

shareholder resolutions supported

CREDIT

Our credit holding in 2022 was split into two separate asset classes: public credit and private credit, which in total account for 5.2% of the endowment (as at year-end 2022). At the start of 2022, we had very little exposure to public credit with yields sitting at low levels versus historic averages, and most of the allocation was focused on private credit. But as the year went on, the credit market significantly dislocated, and we incrementally added to our credit exposure primarily on the public side throughout 2022. In private credit, our investments are focused on loans to private companies. We work with our managers to encourage loans to be structured in a manner which takes account of ESG criteria.

VOTING

Voting is one of the shareholder levers that can shape companies' policies and encourage good governance. For this reason, we exercise voting rights on all of our shares where we have the ability to vote directly (i.e., all of our shares held in segregated, rather than pooled, accounts).

In exercising our voting rights, we generally apply the Church Investors Group (CIG) voting policy. The CIG is an organisation representing the charitable and pension funds of Christian denominations, dioceses, religious orders and Christian based charities. The CIG voting policy sets out our approach to voting on issues including executive pay, governance, diversity, modern slavery, audit, climate change policy, tax and employee pay. Generally, we expect boards to uphold best practice for addressing ESG issues as well as demonstrating risk oversight aligned with shareholder returns.

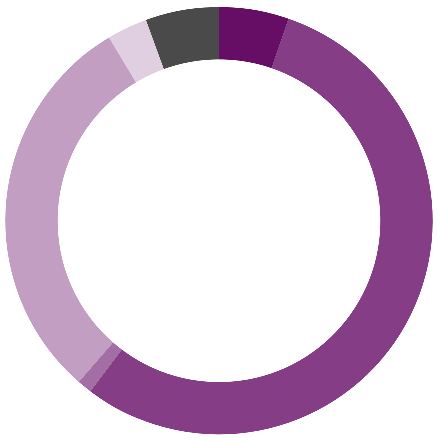
We utilise ISS as our proxy voting and corporate research service due to its wide research coverage as well as agility in implementing our bespoke voting policy. This provides complete oversight of our publicly listed holdings and alerts us to 'refer' votes in situations where application of our ethical investment policies is not clear. In these circumstances, the RI team reviews ISS's recommendation, considering both our stewardship policies and approach, and makes a determination on the vote. We annually run due diligence to ensure that our votes have been cast according to our intentions and recommendations. In addition, we confirm monthly that all our listed managed accounts are correctly set up in order to ensure that we vote all our shares.

USING OUR VOTE TO DISSENT

When it comes to using our vote, the main areas that trigger dissenting votes are on executive pay, auditor independence and board composition. On executive pay, most of our votes in 2022 were triggered by schemes that failed to integrate ESG metrics into their variable pay schemes, or when we considered companies' bonus schemes to be excessive. This is particularly prevalent in the US market where executive pay is outsized compared with other markets. Our dissent votes on board composition are high partly because there are many resolutions on this issue.

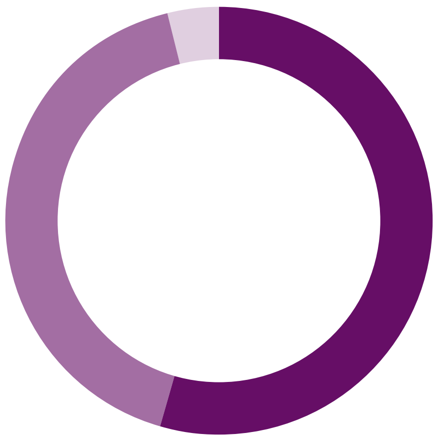
In 2022, 50.2% of the management resolutions we voted on related to director elections. Examples of our dissent include voting against the reappointment of remuneration committee chairs because we are dissatisfied with executive pay. We have also voted against the appointment of audit committee chairs because we are concerned about the long tenure of an external auditor and have no information that the board is addressing this issue.

Management resolutions (dissenting votes cast by topic)



Capitalisation	5.4%
Director related	55.0%
Miscellaneous	0.9%
Compensation	30.3%
Re-organisation and mergers	3.0%
Annual reports and accounts	5.4%

Shareholder resolutions (supporting votes cast by topic)



Corporate governance	54.5%
Environmental and social	41.7%
Miscellaneous	3.8%

VOTING
continued

SUPPORTING DIVERSITY, EQUITY AND INCLUSION

In its 2022 Proxy Preview report, not-for-profit organisation As You Sow noted the number of ESG related shareholder resolutions filed at the start of the 2022 proxy season was up by nearly 20% compared to the year before. Demand for greater action on social issues such as racial justice, equity and inclusion was noted as some of the key driving forces behind the uptick in proposals submitted.

In 2022, shareholder resolutions related to DE&I represented 7% of the shareholder resolutions on which we voted, the most common of which asked companies to undertake a racial equity and/or civil rights audit. We supported 95% of shareholder resolutions in this category, including at two multi-national technology companies who have come under scrutiny for civil rights issues concerning their workplace conditions and impact of their products and services on people of colour. We supported these resolutions because an independent, third-party audit could help the company address these issues and associated risks. We also voted against the re-election of a director at a FTSE 100 company due to concerns over the lack of gender diversity at the executive level.

The Church Commissioners also continues to advocate for greater ethnic and gender diversity in company boardrooms. In 2022, we supported all shareholder resolutions that asked for further disclosure on board diversity and the steps being taken to improve racial and gender balances at the board level. We continue to endorse the recommendations of the Parker Review.

HAVING A SAY ON CLIMATE

The number of climate related shareholder proposals continues to grow, with 74 resolutions submitted as of August 2022 (compared to 58 the previous year) according to ISS. Notably however, the level of support for these proposals declined for the first time in four

years. Analytics firm Insightia observed this drop was due in part to overly prescriptive disclosure requests in some proposals as well as investors being hesitant to push oil and gas companies to strengthen their climate commitments, in light of the global energy shortage.

In 2022, we backed 31 shareholder resolutions relating to climate change, nearly half of which involved setting GHG emission reduction targets or reporting on efforts to achieve them. We are supportive of companies putting climate transition plans forward for shareholder approval as we expect companies to produce TCFD-aligned reports that should allow shareholders to understand how each company is considering climate in its long-term strategy.

An example of this includes a resolution filed at Exxon Mobil Corporation (Exxon) asking the oil and gas company to set GHG emissions reduction targets consistent with the goals of the Paris Agreement. We supported this resolution as it would allow shareholders to better assess how the company is managing its transition to a low carbon economy – a material issue given the risks to society and the company of not doing so. This voting decision aligns with engagement the Church Commissioners has undertaken with Exxon since 2015 to reduce its GHG emissions. The resolution attracted 27% support from shareholders and the company subsequently published a Climate Action Report.

SHARES ON LOAN

A small proportion of our shares are on loan. They amount to less than 0.5% of our assets under management, and we follow the International Corporate Governance Network (ICGN)'s Code of Best Practice and aim to recall all stocks ahead of companies' meetings. Our commitment to vote on all our shares is also reiterated in our RI Policy.

POOLED FUND MANDATES

In pooled fund mandates our external asset managers retain the voting rights for shares in the portfolio. We cannot therefore vote directly on these shares, but we can use our voice as a client to influence how our asset managers exercise their voting rights on our behalf. Our RI Manager Framework, which we use to assess asset managers on responsible investment, includes an assessment of asset managers' approach to active ownership, including voting on shares. We encourage managers to vote on all shares and to vote in line with a bespoke policy as well as practise active ownership in their voting by informing companies of their voting decisions when voting against management.

VOTING continued

SUMMARY OF VOTING POLICY

Policy area	What we look for	Reasons for voting against or abstaining
Executive remuneration Executive Remuneration Policy	Adoption of local best practices. Excessive awards. Integration of ESG metrics. Alignment with shareholder interests. Alignment between executive and wider workforce pay.	Against remuneration report/policy when failing our principles. Against chair of remuneration committee (when concerns persist for more than two years) and whole remuneration committee (when pay scheme breaches more than three principles of our executive remuneration policy).
Governance Statement of Ethical Investment Policy	Board composition and independence.	Against re-election of non-independent directors when board independence is not in line with local good practice and where there is evidence of poor attendance at meetings.
Diversity Statement of Ethical Investment Policy	Board and senior management diversity.	Against chair of nomination committee when board composition is less than 40% female (FTSE 350). Against all members of nomination committee when board is less than 30% female (FTSE 100) and when board is less than 25% female (FTSE 250). Against chair of nomination committee when the board does not contain at least two female directors (S&P 500, TSX 60, FTSE Developed Europe (excl. UK), S&P/ASX 200 or an S&P/NZX 50 constituent). Against chair of nomination committee when the board does not contain at least one female director (all other jurisdictions). Abstain on report and accounts when there is no disclosure on gender diversity at executive committee level. Against chair of nomination committee when board composition does not include at least one member from an ethnic minority (FTSE 100 and S&P 100).
Modern slavery Statement of Ethical Investment Policy	Modern slavery policy disclosure.	Abstain where the company's modern slavery statement is in the lower quartile of either KnowTheChain or The Business and Human Rights Resource Centre's ranking of FTSE 100 companies.
Auditor independence	Disclosure of non-audit fees. External auditor's tenure.	Against chair of audit committee where there is no disclosure or excessive non-audit fees, or auditor's tenure exceeds 10 years (EU) or 20 years (US).

VOTING continued

Policy area	What we look for	Reasons for voting against or abstaining
Climate change Climate Change Policy	TPI Framework and Performance Pathway. TPI management. Lobbying disclosure.	Against the re-election of board chair where the company has not reached at least Level 2 (i.e., companies assessed at Levels 0 and 1) of TPI Framework. Against re-election of board chair where the company is included in the CA100+ programme, is in the electrical utilities (power generation) sector, or is covered by TPI but does not have a TPI Performance Pathway that is either aligned with or below the NDC (Paris Agreement) pathway. Against auditor where the company faces risks associated with climate change, but the auditor's report is silent on the issue. Abstain on report and accounts applicable for CA100+ companies where there is no disclosure of lobbying activities or trade association membership.
Responsible tax	Tax transparency.	Against re-election of board chair where the company (FTSE 350 and Russell Top 50) shows no disclosure of corporate tax management.
Employees' pay Executive Remuneration Policy	Living wage.	Abstain on remuneration report where companies that are FTSE 100 constituents in either the financial services, communications or pharmaceuticals sectors are not living wage accredited or have not met engagement standards.
Tailings	Tailings corporate disclosure.	Against re-election of board chair where the company has not responded to a disclosure request made by the Investor Mining and Tailings Safety Initiative.

LEARNINGS

When it comes to implementing our RI Policy and approach, whilst we believe company-by-company engagement is an effective means of addressing idiosyncratic risk, as a relatively small asset owner, we determined this action would be insufficient in addressing the systemic risks identified in our revised RI Policy in 2022. Therefore, we have adjusted our engagement approach to be more holistic, collaborative and issues based, and will be taking the following actions in 2023:

- Working as part of broader industry coalitions and collaborations; an example is the NZAOA, where we will be co-leads of the Monitoring, Reporting and Verification track, engaging with members and signatories of the alliance.
- Elevating the stewardship expectations of our asset managers through the process of refining and updating our proprietary RI Manager Framework.

Additionally, we reviewed the systems supporting our approach to systemic risk, identifying issues that needed to be addressed and undertaking the following action:

- Codifying ethical screening processes, which had developed organically overtime, thereby avoiding reliance on the institutional knowledge of single-staff members in implementing those processes.


Parish church of St Mary in Batcombe, Dorset

RESPECT FOR THE PLANET

CLIMATE

We want a net zero world, not just a net zero investment portfolio.

A NET ZERO WORLD, NOT JUST A NET ZERO PORTFOLIO

In simple terms, net zero means cutting GHG emissions as close to zero as possible, with any remaining emissions being re-absorbed from the atmosphere, by oceans and forests, for instance. We can influence the pathway on addressing climate change and align our investments, engagement and other activities with the transition to a net zero world.

Consistent with our commitment in 2020 to reach a net zero investment portfolio by 2050, the Church Commissioners adopted a new net zero and climate change strategy in 2022. The emphasis of the net zero commitment is to use our available levers to drive and influence emissions reductions. These levers are partly as a result of being an asset owner, an institutional investor, but we also have unique levers, as the Church Commissioners. To meet our net zero target and contribute to the achievement of a net zero world, we have set out four areas of action:

ACTIONS TO DELIVER NET ZERO	
Measure climate impact	Align our processes
Engage	Invest in solutions

In order to achieve net zero GHG emissions, we need to monitor the portfolio's emissions and measure its climate impact. We currently collect significant amounts of information and are working towards increasing the coverage and quality of the emissions data to enable us to report on this externally. We signal the importance of addressing climate change by having best practice policies and processes in place, excluding activities that we do not believe are part of the transition, allocating capital to managers that factor climate change impacts into their investment decisions and participating in industry groups and initiatives addressing the issue. We engage with our external managers and tenants along with policy makers, companies, and other stakeholders to promote greater action and collaboration on the topic. Finally, we look for how we can invest in climate solutions across our portfolio and see it as a benefit when our managers with wider mandates seek solutions investing.

MEASURE AND MANAGE CLIMATE IMPACT

The Church Commissioners, alongside the other NIBs, is delivering on its 2018 commitment to General Synod to engage with, and disinvest from, high carbon emitting companies that are not making progress to align with the goals of the Paris Agreement by 2023. However, to understand the influence that the Church Commissioners' overall portfolio has on climate change, we need to be able to measure and quantify the emissions impact of each investment. To do this, we ask our external managers to measure, collate and report the relevant emissions data to us. We also encourage (and in certain cases provide funding to) our tenant farmers to conduct carbon audits. This helps them to better understand the environmental impact of their business and informs their decision-making in relation to reducing emissions.

Notwithstanding these activities, we are clear-eyed about the fact that the answers to some problems are not always clear-cut, and for asset classes where impact and measurement methodologies are less mature, we participate in working groups and consultations to develop these tools and metrics. We are supporting work to establish standards for GHG accounting in forestry through participation in a pilot programme for the Greenhouse Gas Protocol, focusing on our UK forest portfolio. As part of this strategy, we are working with our investment managers and outlining our expectations with regard to climate risk and alignment with the low-carbon transition.

We encourage our managers to join initiatives, such as the IIGCC or the Net Zero Asset Managers Initiative and to set their own short and long-term climate goals. This work has run in parallel with updating the Church Commissioners' RI Manager Framework, which now includes more detailed and minimum climate change criteria for us to be partnered with an asset manager. We also review company alignment plans in relation to the transition to net zero, transition plans, and, ultimately, climate risk that our managers, through their investments, hold on our behalf.

Outcome

As part of our membership of the NZAOA we set our first short-term emissions reduction targets in Q1 2021, aiming for a 25% reduction in direct real estate and public equity emissions intensity by 2025, compared with a 2019 baseline. We will continue to include new asset classes when they are included in the scope of the NZAOA.

CASE STUDY: indicative emissions profile

In 2022, we completed a comprehensive, two-year baselining project to understand our estimated annual emissions profile. This includes scope 3 site emissions and therefore includes emissions from activity carried out by our tenants. The emissions profile is dominated by our Farmland and Sustainable Forestry portfolios. Our farmland was estimated to have by far the most significant level of emissions (112,000 tonnes of CO_2 equivalent), whereas our Sustainable Forestry portfolio was estimated to be absorbing (net of harvesting and emissions) approximately 116,000 tonnes of CO_2 equivalent. It is important to emphasise that these amounts are only estimates, due to the lack of emissions data available across parts of the portfolio. A key focus in the coming year is to improve our access to primary emissions data from our tenants, to ensure our net sequestration position improves over time.

CLIMATE
continued

INVESTING IN CLIMATE SOLUTIONS

In addition to reducing the emissions impact of our portfolio, we also look to invest in climate solutions as part of our net zero strategy. Here, we target investment opportunities that align with the green transition across asset classes.

CASE STUDY: Pioneer Infrastructure Partners SCSp fund

In 2022, we committed €30mn to Pioneer Point Partners' ('Pioneer') maiden institutional fund ('the fund'), which is focused on sustainable infrastructure investments across western Europe. The fund, which closed at €575mn, will run for 10 years and focus on infrastructure investments that support the energy transition and the circular economy. It has already completed two acquisitions – a biogas developer across Ireland, and a diversified renewables platform in Spain – and is targeting a diverse portfolio of up to 10 investments. Climate-related infrastructure is one of the fastest growing infrastructure sectors and has proven a successful hedge against external crises, due to its low-cost profile, long-term contracts and high consumer demand.

CLIMATE ENGAGEMENT

One of the key levers for the Church Commissioners to influence the transition to a net zero world is through engagement. We engage with a range of stakeholders on the issue of climate change, including external managers (climate change is a key part of our RI Manager Framework), companies, tenants and others. This is in line with the NIBs' commitment to transitioning their portfolios away from companies that are unwilling to act and align their businesses with the goals of the Paris Agreement.

The NIBs are founding members of the TPI and are investor engagement leads in the CA100+ global engagement initiative. The NIBs use TPI data to assess companies against existing hurdles regarding their alignment with the goals of the Paris Agreement. Additional exacting hurdles came into force in 2022, with more to come in 2023. The 2022 hurdle states that "by the end of 2022 the NIBs will restrict any 'demand-side' CA100+ company with a future carbon emissions profile across their value chain that does not align with a Nationally Determined Contribution (NDC) scenario or has not disclosed information to indicate that it will come into line with an NDC pathway at a later date."

The six sectors identified as within this 'demand side' scope, as reported in the NIBs' July 2021 report to General Synod, were: Airlines, Autos, Aluminium, Steel, Cement, Demand Side Mining.

Outcome

The implementation of the above 2022 hurdle resulted in a watchlist of 10 companies, four of which were already restricted. The NIBs engaged the remaining six companies in 2022, explaining our expectations in relation to the hurdle and our use of TPI analysis. This resulted in two more companies being restricted – Martin Marietta Materials, a US construction materials group, and Adbri (formerly Adelaide Brighton Cement), an Australian construction materials group.

PUBLIC POLICY AND STAKEHOLDER ENGAGEMENT

Net Zero Asset Owner Alliance (NZAOA): policy and monitoring, reporting and verification workstreams

We are members of the NZAOA policy workstream, which has played a significant role in engaging with policy makers in the US, the UK, Japan, China and at the European Commission. This workstream also feeds into the Glasgow Financial Alliance for Net Zero (GFANZ), and the UN High-Level Champions Finance workstream. In addition to being involved in the NZAOA's policy workstream, we are also members of the monitoring, reporting and verification (MRV) track.

Outcome

Through the NZAOA we have contributed to several papers, including on carbon pricing and strategic policy, as well as supporting a call to action for private market investment managers to commit to net zero. At the end of 2022, the Church Commissioners was elected as co-lead for the NZAOA Policy track and MRV track for the year 2023.

UK Sustainable Finance and investment Association (UKSIF) Policy Committee

The Church Commissioners chairs the UKSIF Policy Committee. Through this organisation, it is also represented on the Government's Green Technical Advisory Group (GTAG) Advisory Board. This is the independent expert group appointed to advise the UK Government on standards for green investment. The Church Commissioners is also represented on UKSIF's Green Taxonomy Working Group, whose role will be to advise UKSIF's policy positions at meetings of the GTAG. The Church Commissioners fed into UKSIF's consultation response for the new UK sustainable fund labelling within the UK Sustainable Disclosure Regime.

Institutional Investors Group on Climate Change (IIGCC) working group on alignment of net zero-aligned stewardship between asset owners and asset managers

The Church Commissioners was part of an IIGCC-convened working group of asset owners to develop a set of questions for asset owners to ask asset managers in relation to how they conduct engagement in alignment with the asset owners' net zero targets. The working group has developed a draft questionnaire which went out for consultation in the beginning of 2023.

NATURE AND BIODIVERSITY

COMMITMENT TO PREVENTING DEFORESTATION

Deforestation sits at the heart of climate change, food scarcity and water security, all issues that many parts of the world are struggling to address. For this reason, we have chosen it as our initial focus within the nature and biodiversity workstream, due to its inherent link to the systemic risk posed by nature and biodiversity loss. Many investors are exposed indirectly or directly to deforestation through global supply chains containing forest-risk commodities such as soy, beef, palm oil and others, as well as considering deforestation's impact on creditworthiness of sovereign and fixed income investments.

We acknowledge the need to support a transition to sustainable policies and practices in a way that conserves and restores forests while also protecting local communities and livelihoods. This issue intersects with many existing responsible investment policies and positions that the NIBs are committed to – for example, it will be extremely difficult to deliver our commitments on climate change if deforestation continues unchecked.

Outcome

In recognition of the critical role forests play in regulating global temperatures and protecting biodiversity, the CofE's NIBs published a Deforestation Policy in 2022. As part of this, we expect and encourage companies in which we invest that are exposed to deforestation and conversion to have a public deforestation policy with quantifiable, time-bound commitments that will contribute to ending deforestation and due diligence processes covering supply chains and meaningful disclosures of efforts to end deforestation. We also call for stronger awareness at board level regarding deforestation risks.

To translate this policy commitment into effective action, we collaborate with others as part of joint initiatives including Nature Action 100, FSDA and the IPDD.

PUBLIC POLICY AND ENGAGEMENT WITH LISTED COMPANIES

Finance Sector Deforestation Action (FSDA)

The FSDA initiative brings together financial institutions that share the overarching goal to, as much as possible, eliminate agricultural commodity-driven deforestation risks in their investment and lending portfolios by 2025. The Church Commissioners is a lead investor for engaging with four companies, with a member of the Church Commissioners' RI team also sitting on the FSDA Steering Group. The initiative is focused on using engagement and active ownership to eliminate deforestation (by 2025) from the agricultural soft-commodities tied to the major share of impacts – beef, soy, palm oil, pulp and paper – as part of the global transition towards sustainable production.

The FSDA has developed and published its expectations for increased engagement with companies to address their deforestation impacts, assess their deforestation risk exposures, transform their supply chains to eliminate deforestation impacts, and disclose on their deforestation risk exposures, impacts and progress. This initiative and increased engagement draw on other interventions made by the Church Commissioners on deforestation, including the signing of the Financial Sector Commitment on Eliminating Commodity-driven Deforestation and co-chairing the IPDD with Indonesia.

Investor Policy Dialogue on Deforestation (IPDD)

In the summer of 2020, the Church Commissioners was a co-founder of IPDD, an investor-led initiative whose goal is to engage in a policy dialogue with public agencies and industry associations and other stakeholders, on halting deforestation. The Church Commissioners sits on the IPDD Management Committee, co-founded and co-chairs the Indonesian working group, and supports the Brazil workstream. Focusing on deforestation, the aim is to ensure the long-term financial sustainability of investments, by promoting sustainable land use and forest management, and respect for human rights.

The coalition has grown to encompass three formal workstreams focusing on producing countries with the highest deforestation risk, as well as consumer countries (countries that consume products from regions with high rates of deforestation). As co-chair of IPDD's Indonesian workstream, our Deputy Head of Responsible Investment travelled to Jakarta in October 2022 and met with key stakeholders to discuss how to advance sustainable finance in Indonesia and how institutional investors can support the country's efforts to reduce deforestation. In December 2022, IPDD launched its first progress report, showcasing the role which investors can play in supporting policy makers in protecting tropical forests. IPDD's membership consists of 67 institutional investors from 19 countries representing assets under management of over US$10tn.

Nature Action 100 (NA100)

The Church Commissioners was one of the initial investors who supported the development and launch of the NA100 at COP15 in Montreal. NA100 is a global investor engagement initiative focused on driving greater corporate ambition and action to reduce nature and biodiversity loss. It will complement the UN's Global Biodiversity Framework, establishing a common high-level agenda for company engagements, with the purpose of achieving clear corporate commitments and actions to reduce nature loss and accelerate the adoption of nature-smart practices and public policies.

NATURE AND BIODIVERSITY
continued

APPROACH TO OUR TIMBERLAND ASSETS

In addition to collaborative engagements on the topic of deforestation, forestry has been an important area of focus and investment in our portfolio since 2011. It should be recognised that commercial forestry can provide an important and sustainable source of timber for use in construction materials and other products. When considered on a landscape scale, harvesting and replanting of trees creates a continuous cycle of renewable resource production and an alternative to non-renewable, carbon intensive materials. Sustainable forest management ensures this is undertaken considerately, prevents deforestation, reduces atmospheric carbon and protects biodiversity.

We produced over 200,000 tonnes of sustainable timber in 2022, of which 100% is certified by third parties to high sustainability standards (FSC, PEFC, SFI, ATFS). A significant proportion of the harvested timber will store carbon in wood-based products for decades to come. Harvested areas are replanted to continue the cycle of carbon sequestration and sustainable timber production. Sustainably produced timber is a renewable resource, and a direct substitute for non-renewable, carbon-intensive materials such as concrete, steel and plastics.

Our sustainable forestry portfolio, as of 2022, consisted of about 92,000 acres. Most of these holdings are in the US (69% by area), the UK (25%) and other locations (6%). All our forests and timber products are managed in a sustainable way by investment managers who have specialist knowledge and training in this asset class.

Outcome

We purchased 322 acres of land in Angus, Scotland, in late 2022, where we intend to establish a diverse woodland. This adds to the 116 acres in south Wales, purchased in late 2021, where we similarly intend to establish a diverse woodland.

HYDE PARK ESTATE

Stretching across 90 acres of West London and adjacent to Hyde Park itself, the Hyde Park Estate consists of gardens, other green space and about 1,700 residential, commercial and retail properties. The Church Commissioners owns the freehold of 242 residential buildings across the Estate comprising over 1,300 individual houses or flats. Based on a Georgian model grid pattern, the Estate was initially developed in the 19th century. It originally belonged to the Bishop of London before being transferred to the Ecclesiastical Commissioners in 1868 (which later became the Church Commissioners).

SUPPORTING NATURE AND BIODIVERSITY ON FARMLAND

On the broader topic of nature and biodiversity, our Farmland Asset Managers have done extensive work to educate and promote greener and more sustainable farming practices among our tenants. This includes capacity building and best practice sharing through on-site visits, contributing to policy debates regarding future land management and measuring environmental impacts through carbon audits and soil testing.

Farmland Advisors' Day

In November 2022, our farmland asset managers hosted a day for their advisors providing managing agents, solicitors and environmental consultants with an opportunity to discuss the Church Commissioners' ESG objectives, positive sustainability work achieved to date and the strategy for the next 12 months.

The day involved presentations from third parties, including Farm Carbon Toolkit – assessing carbon audits based off data from the Church Commissioners' tenanted land – and Fenland SOIL – discussing conservation of peat-based soils through agroecological principles. The advisors also visited a tenanted farm near Ely that is a sustainable vegetable cropping business on peaty soils, allowing the group to discuss how different commercial agricultural practices impact the soil carbon across England.

Future Land Forum

The Future Land Forum was established in 2022, with the aim of shaping the future of land management in the tenanted sector and to understand how landlord and tenant collaboration can respond positively to the climate and biodiversity crises. This cross-sector group has included institutional landowners, supermarkets, banks, solicitors and land agents. This Forum has attracted speakers including, Baroness Kate Rock (Chair of the Tenancy Working Group, which was established by the government to provide independent advice to the Department of the Environment, Food & Rural Affairs to support the tenanted sector).

Outcome

Baroness Rock's attendance allowed the Church Commissioners to feed into the Rock Review, which assessed the current state of tenant farming in England and provided a report of 74 recommendations for the government to consider.

Carbon audits

Several farm carbon and GHG emissions assessments were carried out in 2022, following the natural capital and carbon assessment of the farmland portfolio in 2020. These were instructed in collaboration with new farming tenants where regenerative farming is encouraged and soil testing is mandatory, which will allow both the landlord and tenant to assess the environmental improvements that can be made across the landholding to see positive agroecological and biodiversity changes.

NATURE AND BIODIVERSITY
continued

Wildfowl & Wetlands Trust (WWT) Blue Leaders Recovery Group
In 2022, the Church Commissioners became part of the WWT initiative to create a 'Blue Recovery Leaders Group'. The aim of this group is to commit to creating a network of healthy wetlands across the UK, with a target of creating 100,000 hectares of new wetland. As the only landowning member of the group from inception, it is recognised that there is a unique responsibility and capability to leverage the natural assets within the real assets fund and the Church Commissioners is in support of the Wetland Can campaign.

Outcome
The Church Commissioners was the first institutional landowner to join the Blue Recovery Leaders Group and strong links have been created with other members including Berkeley Group and Triodos Bank. Both the Church Commissioners' farmland and strategic land teams have identified existing and future wetland and saltmarsh enhancement projects, to achieve positive, sustainable outcomes for locking in blue carbon. In early 2023, we worked with Hereford Wildlife Trust (HWT) to agree a 25-year lease at Bartonsham Meadows, Hereford. The intention is to restore the expanse of grassland, which is regularly inundated by the River Wye, to be wildflower and floodplain meadows.

Fenland SOIL
The Church Commissioners became corporate members of Fenland SOIL in 2022. This group was established to tackle climate change issues relating to commercial agriculture and farming on peatland soil in the fens in England. The Church Commissioners has significant areas of peaty soils within the fens and sponsorship of Fenland SOIL enables sample gathering and analysis (ground-truthing) of data and improved mapping of historic soil maps. Via the Farmer Dialogue workstream – a forum that seeks to facilitate learning and collaboration between Fenland farmers – Fenland SOIL work closely with farmers and research colleges, including the University of Cambridge, to help positively influence and shape policy as well as providing a knowledge base for farmers seeking to conserve peaty soils.

Outcome
The Church Commissioners has been able to discuss with their farming tenants and wider church organisations who also own land, how Fenland SOIL can undertake a data collection exercise and update their soil maps. As a result of membership, a tenant famer near Ely has participated in live data collection using tall metal structures called flux towers which will monitor the carbon being emitted into the atmosphere from peatland soils, which can occur when such soils are exposed to wind and heat. The data collected will be shared and reviewed by the farmland team.

LEARNINGS
When it comes to our focus on Respect for the Planet, in 2022 we took several significant steps forward in understanding and addressing the climate impact of our portfolio, along with expansion of our work in the area of nature and biodiversity. As part of this progress, we also identified a number of learnings, and will be taking the following actions in 2023:

- Biodiversity is a key stewardship focus for the Church Commissioners across a range of asset classes. However, the lack of an overarching biodiversity strategy has resulted in a more ad-hoc approach, with many different teams working on the issue at a grass roots level. To maximise our impact in this area, we will develop a biodiversity strategy in 2023.
- In future, we intend to be more focused with our climate engagements, to ensure they align with our approach to systemic risk and to maximise our impact in this area.

RESPECT FOR PEOPLE

SOCIAL INEQUALITY

As a responsible investor, we recognise that many drivers of, and solutions to, social inequality are relevant to the risks of climate change, nature and biodiversity loss. However, when compared to the global recognition of the dangers of climate change, with broadly adopted targets (e.g., net zero by 2050), reporting frameworks (e.g., the TCFD) and investor collaborations (e.g., CA100+), efforts related to addressing social inequality are far less advanced. In light of this, we began exploring how best to advance the inequality-as-system-risk agenda via our stewardship efforts across ESG integration, engagement, voting and advocacy.

Outcome

In 2022, the Church Commissioners became the first asset-owner ally of the nascent TIFD. In 2023, the Church Commissioners aims to support the creation of a taskforce related to social and inequality related disclosures that can be integrated into the global disclosure standards being developed by groups such as the International Sustainability Standards Board (ISSB).

TIFD Project

The TIFD was created to meet the need for a systemic risk management framework that can help reduce inequality created by the actions of the private sector. It will provide guidance, thresholds, targets and metrics for companies and investors to measure and manage their inequality-related risks, including a focus on how inequality affects company performance, how inequality contributes to market-wide system-level risks and therefore affects investor performance, and how private sector activity can exacerbate inequality.

HUMAN RIGHTS

Underpinning our approach to social inequality is the expectation, as set out in our Human Rights Policy, that investee companies respect human rights. Respect for human rights enables the management of risks and impacts on people during the transition to tech-enabled, net zero, nature-positive economies, and provides the starting point for companies to help address social inequalities via their impacts on workers, consumers and broader society. The Church Commissioners' efforts on human rights cuts across multiple themes including decarbonisation, renewable energy, responsible technology, DE&I, modern slavery and artificial intelligence.

The Church Commissioners' Human Rights Policy states its expectation that all companies demonstrate respect for human rights through policy commitments, human rights due diligence, the provision of remedy for impacts and appropriate disclosures. In 2022, we explored how to translate that expectation into pro-active stewardship activities (i.e., not responding to events or controversies through ad-hoc engagement but taking a systematic approach across our portfolio).

Outcome

The Church Commissioners revised its voting approach to vote against companies that fail to meet its expectations on human rights. Starting in 2023, the Church Commissioners will vote against the re-election of relevant directors in companies who are not demonstrating a commitment to respect human rights or appropriate due diligence processes. This includes directors with named responsibility for human rights, or board chairs, who are up for re-election in 2023 AGMs.

CASE STUDY: affordable housing in Dover

We seek to tackle inequality through the deployment of strategic land within our Real Assets portfolio. In 2022, the Church Commissioners and our applicant partners, Shepherdswell with Coldred Community Land Trust and English Rural Housing Association, received approval for 13 new homes in Shepherdswell, Dover, 77% of which will be affordable housing. This development will include a mixture of apartments and houses, enabling older generations to downsize to age-appropriate accommodation, while providing younger low-income families access to affordable housing. This supports the CofE's vision for putting its land and resources to good use, with a strengthened focus on social and environmental outcomes, as outlined in the Coming Home report released in 2021.

Currently, there is limited data available to inform voting on whether a company is respecting human rights, nor is it integrated into the most widely used proxy voting services. To address this gap, the Church Commissioners became Allies of the World Benchmarking Alliance (WBA) and, along with Aviva Investors and Scottish Widows, adopted the role as lead investors in the multi-stakeholder Human Rights Collective Impact Coalition (CIC). The Human Rights CIC is focused on expanding and mainstreaming corporate human rights due diligence, so that it becomes a norm of business globally.

Outcome

Collaborating with the other CIC members, the Church Commissioners built a coalition of like-minded investors at the end of 2022, who wanted to see improvements in the quality of human rights data provided to the market, and the mechanisms by which that data is integrated into proxy advisory services. The group of investors agreed an approach to bring data providers, proxy advisors, investors and civil society together to advance the human rights data landscape and enable more investors to take meaningful and informed action on poor corporate human rights performance.

SOCIAL INEQUALITY
continued

MODERN SLAVERY

The Church Commissioners approach the issue of modern slavery and forced labour from multiple directions. We take systematic voting action against companies who perform poorly on credible public assessments (e.g., lower quartile companies in the KnowTheChain benchmark) and we support the Rathbones-led 'Votes Against Slavery' campaign targeting FTSE 350 companies. We participate in the CCLA Investment Management-led 'Find It, Fix It, Prevent It' initiative as a lead investor, we integrate considerations of modern slavery into the Controversies Process for listed equity, seek confirmation from new service providers and existing providers (as part of any new contractual arrangements) that they have the necessary modern slavery controls in place (the RI team internally supports our private equity and real-asset teams with subject matter expertise); and we support thought leadership on the issue.

Outcome

The Rathbones Votes Against Slavery campaign won the PRI 'Stewardship Initiative of the Year' award in 2022. Targeting FTSE 350 companies assessed to have failed to comply with Section 54 of the UK Modern Slavery Act 2015, 44 companies were engaged with to encourage compliance, backed by the investor coalition who had indicated their willingness to abstain from voting on the approval of companies' annual reports and accounts. Thirty-eight of 44 companies were seen to become compliant following engagement.

Outcome

We continued engagement with a large cruise company as part of the Find It, Fix It, Prevent It initiative. Following the publication of their modern slavery statement and Code of Conduct in 2021, we focused on their implementation in light of the US Uyghur Forced Labour Prevention Act, discussing the latest academic research on relevant high-risk materials and providing the company with links to useful tools for their internal teams.

Outcome

To address the fact that many asset managers focus their due diligence activities on their own operations and supply chain, ignoring their arguably most material exposure – the companies they invest in – the Church Commissioners was part of the working group that supported the development of a Modern Slavery Toolkit for Investor Due Diligence. The toolkit is designed as a step-by-step guide for investment teams to undertake due diligence on modern slavery issues within listed companies, and evidence this to their stakeholders.

JUST TRANSITION

Following the discussions at COP 26 in Glasgow and the impact on energy security due to the invasion of Ukraine, there has been increased focus globally on the just transition – a topic the Church Commissioners has been working on for several years. While the term 'just transition' has many interpretations, ultimately, it is underpinned by the belief that the decarbonisation of the global economy must be managed in a way that is fair and equitable to all affected stakeholders, including workers and communities. In 2022 we acted on this on three different levels: company engagement; collaborative initiatives shaping the broader policy environment; and alignment with the Church Commissioners' revised approach to responsible investing and systemic risks.

On direct company engagement, we have focused on key demand-side, high emitting companies. We successfully engaged with eight utility companies in North America and Europe in 2022. These companies were chosen for several reasons including their presence on CA100+, their inclusion in the WBA's Just Transition Assessment, past engagement and their likely future inclusion in the PRI Advance initiative. PRI Advance is a $30tn stewardship initiative focused on human rights and social issues. Where applicable, we jointly engaged with the other NIBs.

Our engagements focused on raising the awareness of the just transition, particularly the frequent gaps identified in utility companies' understanding of social risk and impact management in relation to workers, customers and communities. Several companies stated that we were the first investors to raise the just transition with them, underscoring the lack of understanding on this topic hitherto.

Outcome

We supported the CA100+ North America Just Transition working group of investors, who were beginning to integrate the topic into their engagements with companies. We also contributed to the What Investors Seek on Just Transition Reporting report, which will be used to inform CA100+ investors on the topic.

These engagement activities have led to greater recognition of the just transition as a topic within both utilities companies and among CA100+ investors. As a result, we closed out the just transition specific engagement workstream and are pivoting to focus on PRI Advance in 2023, enabling us to combine the human rights and just transition themes. In its first years the initiative will target mining companies and electric utilities – two sectors that will be critical for the just transition to low carbon economies. The Church Commissioners was chosen as a lead investor for one of the 40 target companies.

Outcome

We continue our public policy and advocacy efforts through membership of the FJTA, which aims to translate the growing commitment to a just transition across the financial sector into real-world impact. We contributed to the Making Transition Plans Just report, which shows how to embed the just transition into financial sector net zero plans and will be used to engage with and inform the UK Transition Plan Taskforce guidance and frameworks for net zero plans.

SOCIAL INEQUALITY
continued

DIVERSITY, EQUITY AND INCLUSION

The topic of DE&I has clear crossovers with the Church Commissioners' efforts to be an inclusive organisation and address systemic risks like social inequality. Our RI activities in this area include: voting against director re-election and reports and accounts, based on gender and race representation and disclosures; membership of collaborative initiatives like the 30% Club UK Investor Chapter (the 30% Club is a global campaign led by Chairs and CEOs taking action to increase gender diversity at board and executive committee levels); and integration of DE&I into our RI Manager Framework that supports manager due diligence, expectation setting and progress monitoring for our securities' managers.

CASE STUDY: Asian hedge fund manager

In 2022, we started investment with a multi-billion dollar Asian hedge fund manager that focuses primarily on taking long and short equity positions in Asian companies. As part of our diligence on the manager, they were assessed against our RI Manager Framework. Generally, they performed well across the framework's seven pillars, but scored relatively poorly on DE&I. This was because, despite having a large and diverse team, they did not monitor the gender pay gap at the organisation.

Given the importance of DE&I and noting the lack of diversity within the investment industry, we engaged with the manager on this topic. This interaction was received positively and resulted in the manager improving their DE&I policies, which included a commitment to monitoring the gender pay gap at the firm. This engagement was completed prior to investing with the manager and is an example of us leveraging our capital to improve practices in the industry.

Within the RI Manager Framework's section on DE&I, we consider a number of criteria – including whether the manager has an awareness of, and monitors, any pay gaps that might exist in relation to employees' gender or ethnicity, for example. Where a manager falls short of our expectations, we will engage them in an effort to improve their understanding and performance on the topic.

RESPONSIBLE TECHNOLOGY

A responsible approach to technology, adopted by Big Tech firms down to every business using algorithms, software and hardware, is necessary to ensure inequalities are addressed and transitions to new economic models or ways of work are carried out in a way that respects people. While technological advances do create some new issues, we recognise that many problems can be traced back to a lack of responsible business conduct fundamentals. This is why our approach to responsible technology is always informed by our expectations on companies to respect human rights and undertake human rights due diligence.

Outcome

A key development in 2022 was the adoption of a NIBs Big Tech policy, supported by guidance from the EIAG. The NIBs committed to continuing active ownership of

the Big Tech companies (e.g., Alphabet, Amazon, Apple, Meta, Microsoft) through direct engagement, public policy efforts and the development of relevant industry standards.

On company engagement, we continued our previous multi-investor engagement with a Big Tech company on their approach to human rights. We provided feedback to the CEO on the company's human rights report and outlined a number of expectations regarding respect for human rights in the tech sector. This was followed up with a detailed meeting including the company leads for human rights, AI and machine learning. We will continue this engagement with the aim of furthering the company's respect for human rights and to maintain a strong investor voice for responsible technology.

Outcome

In July 2022, the Church Commissioners signed on to the Investor Statement on Ethical AI, a collaborative initiative organised by the WBA, and joined the WBA's multi-stakeholder coalition on ethical AI. The coalition chose key companies from the WBA Digital Inclusion Benchmark, focusing on a narrow issue: advancing company transparency and commitment to ethical AI. The Church Commissioners is engaging with three companies (as lead, co-lead and supporter) with generally positive engagement. Their subsequent performance on the WBA Benchmark will be tracked and engagement will continue in 2023.

In early 2022, the Church Commissioners joined The Investors for a Sustainable Digital Economy (ISDE), a network of like-minded investment managers and asset owners, to engage with, and steward companies through, digital governance best practices. The network has been created by not-for-profit Creating Future Us and works with investors to champion sustainable use of technology in business, to create net positive benefits for society.

Outcome

In 2022, ISDE published the deep-dive report Addiction by Design. Following this, a member of our RI team, who sits on the ISDE Content Committee, supported the creation of leading practices and due diligence questions for investors to use in engagement, focusing on the issues of responsible technology innovation and implementation, as well as technology addiction. The due diligence questions will be piloted in 2023 before being finalised for wider adoption.

LEARNINGS

When it comes to our focus on Respect for People, in 2022 we expanded our involvement in external collaborative initiatives on topics including just transition and responsible technology. We also refined the actions we would take internally, such as engaging with managers on DE&I issues and voting against directors of companies who exhibit poor human rights management. As part of this progress, we also identified a number of learnings, and will be taking the following actions in 2023:

- In order to take more systematic action on human rights issues (e.g., voting against the re-election of relevant directors at companies that fail to meet our expectations on the topic) it will require increased engagement with data providers and proxy advisors to change the availability and use of relevant corporate human rights data.
- To complement the systematic approach for human rights across all listed companies, we aim to increase our impact by focusing on key 'social' issues with fewer companies. For example, shifting from individually engaging with all our electric utility companies on just transition, to engaging with a handful of companies in the renewables and mining sectors as part of the PRI Advance human rights engagements. This brings a human rights focus to key transition sectors, supported by a multi-trillion dollar coalition of like-minded investors.


St James' Church, Chipping Campden, Gloucestershire

HOW WE RUN OUR ACTIVITIES

EMPLOYEES

The NCIs' values are at the heart of everything we do. Our newly expanded set of values and generous behaviours are: Strive for Excellence, Show Compassion, Respect Others, Collaborate, and Act with Integrity. These will be rolled out across the NCIs in 2023. Along with our fellow NCIs, we are an accredited living wage employer and ensure that all our staff have a living wage appropriate to where they live. We are also a Disability Confident Leader and signatory to the Armed Forces Covenant. We report in full on our organisation and people in our Annual Report. However, here we want to comment on a key theme: belonging and inclusion. That's because it is at the heart of being a responsible, ethical employer.

Our aim is for everyone in the NCIs to feel that they belong and are valued for who they are and what they contribute. In 2022, following the successful belonging and inclusion strategy developed in 2019, we launched a revised action plan which will run until 2025. The plan focuses on four areas: mentoring and learning, leading and signalling, generous behaviours, and celebrating and storytelling.

Various DE&I initiatives carried out in 2022 include:

- **The development of diversity benchmarks** against which we monitor our progress and target our action to ensure our workforce represents the diversity of the nation that the CofE serves, at all levels, including the most senior.
- **Induction training upon joining.** We have refreshed the inclusion and bias training which is mandatory for all NCI employees, who discuss concepts of belonging and inclusion and become familiar with the UK Equality Act, as well as develop awareness of behaviours that exclude others and how to challenge them by speaking up and advocating for self and others. As part of this training, employees also learn of informal and formal routes to raise issues of poor behaviour.
- **Manager training.** To support our people in adapting to evolving ways of working, we rolled out training to line managers, with a strong emphasis on inclusion and wellbeing, which reached around 70% of NCI line managers. All line managers were provided with training on how to build an inclusive team, consider whose voices and opinions are listened to and how to handle sensitive real-world situations.
- **Senior leaders.** We continued to deliver the 'Difference' course to senior leaders which aims to support learning and behaviours around disagreeing well and ensuring that the organisation is an inclusive place that accommodates different perspectives. Two members of the Investments leadership team have completed this course so far. Additionally, senior leaders were provided with more tailored inclusion and bias training.
- **Employee networks.** We continue to support a number of employee groups such as the LGBT+ Staff Network and the UK ME Network and use our intranet to raise awareness of issues, and to foster discussion about belonging and inclusion. Leaders across the organisation are continually encouraged to partner with these networks for support and training on how to be an ally. In 2022, we again participated in the #10,000 Black Interns scheme, welcoming another intern into the organisation.
- **Mentoring.** In 2022, we built on an existing developmental mentoring programme, launched two years earlier, with another scheme linked to career growth and progression – but with a reciprocal element to promote exchange of perspectives and build relationships. This means that while the development goals of the mentee may still be part of the partnership, there will also be an emphasis on creating and supporting relationships across gender, ethnic background, disability status, identity and generational divides, and more broadly between people who bring different skills, experiences and perspectives. There are 23 mentoring partnerships under this scheme, building on the 33 partnerships under the 2020 scheme.
- **We held open conversations and discussions** within teams to co-create an NCI charter of behaviours. Team members also participated in discussions about department employee engagement survey results.

EMPLOYEES
continued

TRAINING AND PERFORMANCE MANAGEMENT REWARDS

Our internal team of investment and asset managers are encouraged to obtain a diverse range of professional qualifications, all of which blend the development of deep sector expertise and include elements of ESG and responsible stewardship as relevant to their roles, such as the CFA charter, IMC and RICS qualification. This foundational training, sponsored by the Church Commissioners, provides the skillsets to complement the thought leadership, stewardship experience and insights held by the RI team as described in the 'Our Approach' section. Regular stewardship briefings are provided on Investment team meetings/calls, which relate to a variety of sustainability topics. We also support internal learning sessions between peers, with the aims of building technical and cross sectoral expertise, growing individual skills and developing team working behaviours in line with our values; these sessions will continue in 2023.

To fulfil its obligations to the wider Church, we seek to attract and retain high-calibre investment professionals. Our reward offering is designed to reflect the market for investment specialists and incorporates long-term incentives which encourage consistent outperformance of our target investment returns over five years. This includes non-financial metrics which consider how well an individual has performed as a trusted and effective steward of the Church's assets, through observation of the Church Commissioners' organisational values of Strive for Excellence, Show Compassion, Respect Others, Collaborate and Act with Integrity. The measurement of performance over a five-year period reinforces our focus on delivering sustainable long-term outcomes and underlines this focus in relation to individual performance.

The level of pay and the value of incentive awards are overseen by a Remuneration Committee, made up of trustees from the Assets Committee supported by independent benchmarking data. The incentive scheme was designed in consultation with external consultants to ensure it reflects best reward practice. The scheme is reviewed for consistency with the executive remuneration policy adopted by the NIBs and alignment with our wider values.

CASE STUDY: deep dive on deforestation

As part of our commitment to upskilling our investment division teams and increasing cross-sectoral knowledge, the Church Commissioners regularly hosts internal learning sessions and 'deep dives' on specific issues relevant to our stewardship responsibilities. A recent 'deep dive' session hosted by the RI team's nature and biodiversity lead focused on stewardship activities to minimise climate change risks from deforestation. Participants discussed the drivers of deforestation and how this hinders the effective sequestration of carbon emissions from the atmosphere. They also learned about how the issue of deforestation can be a financially material risk and the tools and initiatives available to financial institutions to insulate themselves from this. A number of colleagues joined this session, which was presented online in webinar type format with a Q&A at the end.

CASE STUDY: deep dive on conflict and responsible investment

As part of our regular internal learning approach, time was set aside for the RI team's social lead to present and discuss 'conflict and responsible investment' with the Investment Division. The session covered the scale of conflict today and the trends in conflict frequency and displaced people, framing conflict in terms of the corporate responsibility to respect human rights. The broad group were then guided through the policies and systems the Church Commissioners already has in place to address issues linked to conflict in our investment and stewardship activities, before reflecting on the lessons learned from the recent Russian invasion of Ukraine.

SUPPLIERS

Periodically, the Church Commissioners reviews the performance of its service providers. In some cases, we undertake a re-tender to ensure we have the right service providers to best meet our responsibilities to our beneficiaries. Sometimes this process results in a change of service provider.

As is common for a portfolio of the depth and range of the Church Commissioners, it appoints and partners with a wide range of service providers, consultants and agents to efficiently support our investment teams and operations. To manage this, we operate to a robust framework that guides the diligence, monitoring and vendor governance arrangements. The framework comprehensively considers ESG and diversity requirements for all suppliers, as well as risk, and regulatory and ethical standards through our supply chain. This includes supplier policies and compliance on health and safety, modern slavery, sustainable procurement, and equal opportunities.

The Vendor Governance Framework mandates the completion of a corporate social responsibility (CSR) questionnaire by suppliers, seeking to establish:

1. Whether they have a CSR or other environmental/social policy in place, and whether this covers their supply chain. We also ask how this is embedded within their organisation (e.g., does CSR form part of their employees' objectives, are staff trained appropriately?). We confirm with all suppliers that they are either living wage-accredited or pay rates that comply with living wage requirements. This includes asking if they have zero-hour contracts in place and, if so, the rationale for having them.

2. Whether they have, with regard to climate change and sustainability, implemented processes to identify the companies/businesses exposed to the main sustainability risks, impacts and opportunities, for their specific business, and whether these are managed or mitigated. We ask how these aspects are embedded into the organisation and monitored, and whether this extends to their suppliers. We also ask whether they have a firm-wide strategy and target for reducing carbon emissions (e.g., a net zero ambition) and if they are involved in any sustainability/climate change initiatives or groups. We also ask if they take a public position in favour of policy that supports the transition to a low carbon/sustainable economy, as well as what other sustainability factors they measure and monitor (e.g., biodiversity and waste).

3. Whether they report on climate change and sustainability and, if so, whether this is in line with the TCFD, and/or whether they report on CSR and the environmental/social characteristics of their business in an annual CSR report.

4. Whether they seek external assurance of their practice of CSR (e.g., ISO 26000 certification) and whether their business is certified to, or working towards, any recognised environmental standards (e.g., ISO 14001).

5. We ask all our suppliers to outline how DE&I is embedded within their businesses.

6. In the context of adherence with anti-slavery and human trafficking legislation, we ask whether vendors have a modern slavery statement and policy in place and if they investigate their labour practices and those of their direct suppliers on an ongoing basis to ensure there is no evidence of slavery or forced labour in their organisation, direct suppliers or sub-contractors. We also ask them to confirm they have in place all necessary processes, procedures, investigations and compliance systems to support this.

The Church Commissioners has more than 500 suppliers in its supply chain. We regularly refresh due diligence either as part of regular monitoring or as part of tenders/re-tenders and contract renewals. If responses demonstrate that the supplier does not have a sufficiently robust ESG framework appropriate for the company's role and scale, or if it does not align with our values, then an escalation process is implemented. In these cases, we might work with the supplier to further develop its working practices or consider other remediating actions. Our expectations are informed by the size of the organisation, including whether it is a small or sole trader business. We challenge our suppliers where we feel responses to our CSR questionnaire are weak, or they have not demonstrated clear commitment in specific areas.

Church Commissioners' staff are prohibited from receiving gifts or hospitality from potential suppliers where there is a tender process underway as laid out in the NCI's Compliance Regulation Manual. A monthly reminder is sent to all staff within the Investment team advising which suppliers are actively engaged in a tender process and providing a link to the relevant compliance manual.

SUPPLIERS
continued

CASE STUDY: legal panel appointment, diversity, equity and inclusion

During 2022, we undertook a tender process to establish a legal panel for the Investment team. This required each participating firm to provide responses to our CSR questionnaire. Each firm's tender response was reviewed and scored with those firms with the highest scores being invited to present. As part of this process the diversity of the teams put forward by the respective firms was assessed.

Firm A. Put forward a diverse team at the presentation stage, giving opportunities for both junior and senior team members to participate and present, as well as ensuring gender diversity in the presenting team. Our feedback provided to the firm following the tender process highlighted that this clearly demonstrated its approach to diversity, equity and inclusion and aligned with the written tender response that it had submitted.

Firm B. Clearly outlined its commitment to diversity, equity and inclusion in its written tender response, but at the presentation stage attended with an 'all male' team. This was challenged at the presentation and the firm acknowledged that this did not demonstrate that it was fully committed to ensuring its team was diverse, equitable and inclusive. Rather than appoint the firm for the full five-year term, it was decided that an initial 12-month appointment would be offered so that its approach to diversity, equity and inclusion could be reviewed prior to deciding whether to appoint for a further four-year term.

CASE STUDY: new appointments, provision of CSR reporting

In the course of obtaining responses to our CSR questionnaires we identified that to work with suppliers to make improvements and hold them to account there was a need to formalise reporting. As mentioned in our 2021 report, we have therefore been incorporating annual reporting against key ESG metrics into all key appointments, ensuring these are captured in legal agreements and service level agreements, as well as in annual strategic review meetings and in formal reporting. This ensures that failure to reach targets is flagged and action plans are agreed to remediate issues that arise. In addition, where relevant we work with suppliers to identify further targets to build a cycle of ongoing improvement.

Firm C. Has been used by the Church Commissioners for a number of years across our property portfolio. While renewing several existing agreements with the firm and implementing a new agreement for the provision of new services, the requirement to report on targets and performance was incorporated within the agreements to ensure the firm reports to us annually on DE&I (including in relation to pay gaps); sustainability (carbon footprint, emissions, waste, biodiversity, recycling and sustainable procurement); and social (community engagement, inclusion and charitable engagement). There was also a requirement for annual confirmation that the firm is Living Wage compliant, whether zero-hour contracts exist and if so why, and whether the firm is 'disability confident' (and, if not, what the firm is doing in this area).

GOVERNANCE STRUCTURE

The Church Commissioners is incorporated and constituted under the Church Commissioners Measure 1947. We are a registered charity in England and Wales and are one of seven NCIs. We are one of three NIBs of the Church of England, the other two being the Church of England Pensions Board, which manages retirement housing and pension schemes, and the CBF Church of England Funds, which manages the investment assets of some dioceses, cathedrals and parish churches.

The Church Commissioners is also a charitable endowment. Our key role is to steward and manage the Church's endowment portfolio to provide sustainable financial support in perpetuity to support the mission and ministry of the Church of England. The Church Commissioners is accountable to Parliament, General Synod, and, as a registered charity, the Charity Commission. There are 33 Church Commissioners, six of whom are state office holders. The other 27 members serve on the Board of Governors and have trustee responsibility for meeting our charitable obligations.

When considering the makeup and membership of our governance board and committees, we seek to have diverse representation. This ensures our board/committees have strong relevant professional expertise, including investment and real estate experience, combined with experience from other areas – in particular from Church and community voices. These board/committee members are bishops, priests and lay people.

THE BOARD OF GOVERNORS, ITS COMMITTEES AND RESPONSIBILITIES

The 27 Commissioners with trustee responsibility comprise the Board of Governors, which oversees the Church Commissioners' activities. The members of the Board are registered as charity trustees with the Charity Commission. The work of the Church Commissioners is overseen by four Committees: Assets; Audit & Risk; Bishoprics & Cathedrals; and Mission, Pastoral & Church Property, which, in turn, report into the Board. The Board and all the Committees are supported by an executive team led by the Chief Executive and Secretary, Gareth Mostyn.

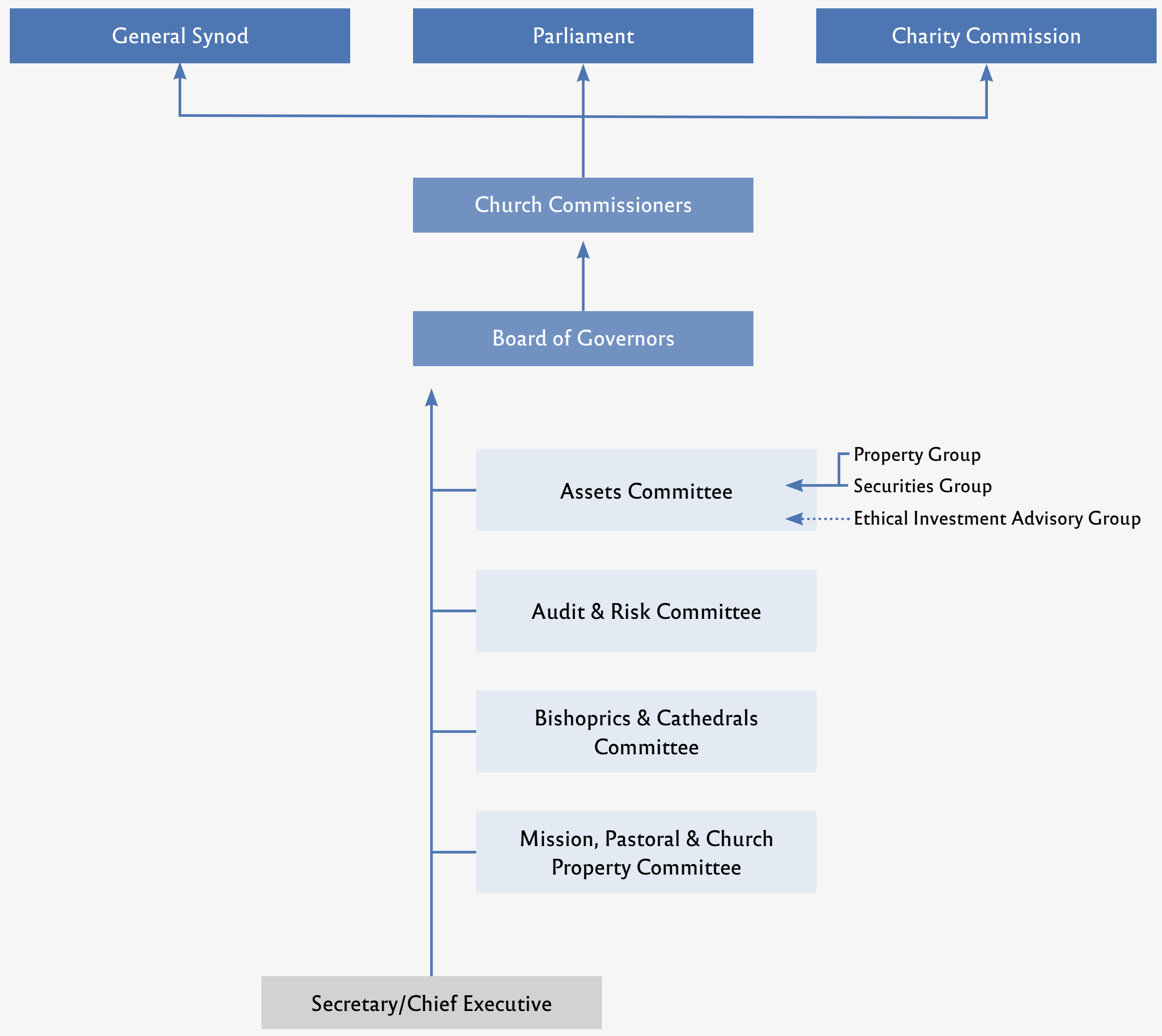
ASSETS COMMITTEE

On behalf of the Board, the Assets Committee is responsible for governance of the endowment fund, operating within general rules set by the Board. At the heart of these rules is the principle that the Assets Committee, and the Responsible Investment team that reports to it, will manage the Church's assets in complete accordance with our ethical investment policies, which themselves are approved by the Board. The Assets Committee reports quarterly to the Board. The Assets Committee provides oversight of our stewardship activities. In addition, ESG issues are incorporated into our risk register, which is reviewed at executive level and by trustees at twice per annum.

While the Assets Committee has direct and fiduciary responsibility for the management of the assets, the Audit & Risk Committee has deep finance and risk expertise in its membership and always has a member in attendance at Assets Committee meetings. The attendee's role is partly to observe and comment on proceedings. However, they may also comment and contribute, at the Chair's invitation, on risk-related matters. The Audit & Risk Committee has direct accountability to the Board of Governors and reviews key investment matters on a regular basis at its own meetings. It also receives the quarterly risk and controls reporting (also provided to Assets Committee) that sets out the position of the fund through the preceding quarter, relative to the investment guidelines and limits referenced above. Finally, in line with established practice, the Audit & Risk Committee and its Chair are a key escalation point for risk matters and breaches. This way, and through all the above arrangements, they are fully informed and empowered to raise issues to the Chair of the Assets Committee and to the Chair of the Board of Governors.

GOVERNANCE STRUCTURE
continued

CHURCH COMMISSIONERS: GOVERNANCE STRUCTURE



MANAGING RISK

The Board of Governors is responsible for risk and reviews its risk management arrangements at least annually. As noted above, the Board is supported by the Audit & Risk Committee, which reviews the content of the strategic risk register on a six-monthly basis and seeks assurance over the adequacy of arrangements in place to manage the key risks. In 2022, the Church Commissioners' Audit & Risk Committee also considered wider CofE risks and their implications for the Church Commissioners, with discussion focused on culture, reputation and socioeconomic factors impacting long-term investment return and distributions. Investment risks and operational risks, related to the portfolio, are subject to regular review by the Assets Committee.

Separately, in line with best practice, individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility. The Investment Division includes a dedicated investment risk and performance function, which, alongside providing independent performance reporting, provides a dedicated second line of risk control by monitoring and reporting on the investment guidelines and limits that are set out in an investment risk framework, one of the main policy documents governing all investment activity, and owned by the investment risk and performance function. This function is led by an experienced investment risk professional with a background in banking and buyside investment risk.

The Director of Risk & Assurance and Risk Manager meet six-monthly with department heads to review their risks, mitigations and current actions. Risks are evaluated and prioritised using a scoring methodology recommended by the Charity Commission.

The Church Commissioners' risk management process is being enhanced through the introduction of dedicated risk management software (Rhiza) and is facilitated and monitored by the Risk & Assurance Department, which is responsible for the Risk Management Policy and Procedures. The management of key risks is subject to independent review and assurance through the internal audit process, the reports from which go to the Audit & Risk Committee.

In 2020, an independent review of our risk management arrangements was undertaken, and a roadmap developed to implement recommendations. Subsequently, the Risk & Assurance team has enhanced risk reporting using a greater level of visualisation. An independent review of risk management is scheduled every four years within the Annual Internal Audit Plan. All staff are required to comply with the NCIs' Compliance Regulations Manual which covers gifts, hospitality, conflicts of interest, insider dealing and staff dealing rules, investment advice, confidentiality, and outside interests. Trustees are required to comply with a Trustee Code of Conduct.

GOVERNANCE STRUCTURE
continued

INTERNAL AUDIT

In line with the Charities Act 2011 and in compliance with the Institute of Internal Auditors' International Professional Practices Framework (IPPF), on an annual basis, a risk-based Internal Audit Plan is produced. This is then reviewed and formally approved by the Church Commissioners' Audit & Risk Committee. The Annual Internal Audit Plan is developed through an audit needs analysis and robust risk assessment process including discussions with management. This helps to understand particular aspects of change, by considering external and internal factors that may increase risk and through the development of assurance maps. Internal Audit progress is discussed at each Audit & Risk Committee meeting and finalised audit reports are circulated and discussed.

In the summer of 2022, an External Quality Assessment of the NCIs' Risk and Assurance function was undertaken in accordance with the Institute of Internal Auditors' (IIA) recommended best practice. The function was found to be generally compliant with IIA standards and providing a good level of assurance.

The NCI's Internal Audit Department regularly conducts audits which include coverage of the RI and stewardship activities, either through specific RI process audits or through audits of core investment and operational activities that have embedded or integrated RI activities. As an example, in 2022 two audits of investment and operational processes included the auditing of the monitoring and management of Ethical Policy restrictions with external managers.

The Internal Audit planning process referenced earlier is based on a map of auditable areas that includes RI and stewardship activities, thereby ensuring coverage of these areas. Internal audits of investment and RI activity are typically undertaken by an external audit firm appointed as the co-source partner of the Internal Audit Department, to ensure the specialist industry expertise necessary. Given this approach to internal audit, additional external audit work of RI and stewardship activities has not been considered necessary, with the exception of the external verification work commissioned for the Sustainable Bond.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Annually, there is also a formal review of all the Church Commissioners' policies and frameworks, which is approved by the Assets Committee. This includes a review of our vendor management and operational due diligence processes, both of which are key policies which embed RI policies as required.

MANAGING TRUSTEES' CONFLICTS OF INTEREST

The Church Commissioners is in the process of undertaking a review of its conflicts of interest policy, taking into account the need most effectively to manage any actual or potential conflicts of interest and loyalty.

The Church Commissioners had initiated a review in 2022. However, during 2022 the Church Commissioners issued two public bonds. As a result of those issues, the Church Commissioners is a public interest entity. The Church Commissioners wishes to ensure that any necessary safeguards arising from that status are taken into account in its revised code of conduct. The Church Commissioners now anticipates that the revised code of conduct will come into effect during 2023.

The Church Commissioners requires all trustees to declare any conflicts of interest in writing, and declarations of any conflicts are a standing item on the agenda of all governance boards and committees. Furthermore, the Church Commissioners undertakes a rolling review of conflicts during the year, in which trustees are required to refresh their declarations.

The governance arrangements of the Church Commissioners authorise certain unavoidable conflicts which may arise from its board composition. For example, its board is required to comprise a number of clergy who, on occasion, are involved in decisions which may have an impact on them as members of a class of beneficiaries (for example, in connection with accommodation which the Church Commissioners provides to certain office holders). Notwithstanding the authorisation, the relevant board member is required to disclose the conflict. Where the board member may obtain a particular personal benefit other than as a class of beneficiaries, as a result of this conflict they do not participate in the debate or decision.

The Church Commissioners has also adopted a technical solution to enable more sophisticated restriction of working papers from trustees who have a relevant conflict of interest. Through the online governance platform Boardvantage, we prevent conflicted members from seeing individual working papers or groups of papers, and minutes, as appropriate to the conflict in question and we have the ability to monitor access to such materials and thus to verify that conflicted individuals have not read restricted materials.

CASE STUDY: managing declarations of interest

A former trustee and member of the Church Commissioners' Assets Committee was employed at a substantial investment manager which might have been an investor. That trustee immediately declared a standing declaration of interest in connection with the bond issue, and liaised with his employer's compliance team to ensure that any conflict of loyalty was manageable.

CASE STUDY: managing conflicts of interest

The Church Commissioners may make grants to cathedrals. The relevant grant-making committee comprises some senior cathedral clergy. The committee considered a possible grant to a cathedral where one of the committee members was the senior cleric at the relevant cathedral. The cleric withdrew from debate and decision.

THE CHURCH COMMISSIONERS AND BOARD OF GOVERNORS 2022

EX OFFICIO
The Most Revd and Rt Hon Justin Welby, Archbishop of Canterbury (Chair)
The Most Revd and Rt Hon Stephen Cottrell, Archbishop of York

APPOINTED BY THE CROWN
Alan Smith, First Church Estates Commissioner
Andrew Selous MP, Second Church Estates Commissioner

APPOINTED BY THE ARCHBISHOP OF CANTERBURY
Revd Canon Dr Flora Winfield, Third Church Estates Commissioner

ELECTED BY THE HOUSE OF BISHOPS
The Rt Revd David Walker, Bishop of Manchester (Deputy Chair)
The Rt Revd Viv Faull, Bishop of Bristol
The Rt Revd David Urquhart, Bishop of Birmingham (to 18 October 2022)
The Rt Revd Stephen Lakem, Bishop of Salisbury (from 19 October 2022)
The Rt Revd Graham Usher, Bishop of Norwich

ELECTED BY THE HOUSE OF CLERGY
The Revd Christopher Smith
The Revd Anne Stevens
The Revd Steven Trott

ELECTED BY THE HOUSE OF LAITY
Canon Peter Bruinvels
Jay Greene
Jacob Vince

ELECTED BY THE DEANS
The Very Revd Mark Bonney, Dean of Ely
The Very Revd Stephen Lake, Dean of Gloucester (to 1 April 2022)
The Very Revd Rogers Govender, Dean of Manchester (from 1 May 2022)

NOMINATED BY THE CROWN OR THE ARCHBISHOPS
Poppy Allonby (to 30 September 2022)
Remi Olu-Pitan (from 1 October 2022)
Suzanne Avery
Morag Ellis KC
Duncan Owen
Elizabeth (Betty) Renshaw MBE
Busola Sodeinde
Helen Steers
Nigel Timmins
Mark Woolley

REFERENCE TABLE

PRINCIPLES	SECTIONS (PP.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 1 Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.		The Church Commissioners is a unique investment body whose purpose is twofold; to generate long-term financial returns to fund the work of the CofE, and to ensure we invest in a way that brings benefits to the wider world and contributes to the common good. Our RI Policy informs our investment approach and is driven by the Fourth and Fifth Marks of Mission. These beliefs also guide our stewardship activities when it comes to voting, company engagement, ethical screening, manager selection and solutions-based investing. We continue to grow the value of the endowment and believe our approach is robust and effective in serving the interests of our beneficiaries and wider stakeholders.
Principle 2 Signatories' governance, resources and incentives support stewardship.		The Church Commissioners' Board of Governors oversees the organisation's activities. The Assets Committee is tasked with governance of the endowment on the Board's behalf, which includes oversight and accountability for stewardship activities. Our RI team has deep technical expertise across a range of thematic areas and works with colleagues across the Investment Division to undertake stewardship activities and increase their knowledge and understanding of our RI Policy. This holistic approach to responsible investment is also reflected in the Church Commissioners' remuneration approach which incorporates non-financial metrics. We utilise respected service providers including MSCI, ISS and CTI to expand the influence of our stewardship activities when it comes to company engagement, ethical screening and voting. Similarly, our decision to pivot from a company-by-company engagement approach to one that is more collaborative and issues-based reflects our desire to have greater impact and influence at a systemic risk level.
Principle 3 Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.		When our ethical restrictions and stewardship policies conflict with those of our managers we seek to work with them to develop a satisfactory resolution. Due to the unique organisational structure of the Church Commissioners, its governance arrangements authorise certain unavoidable conflicts – such as the Board comprising of clergy who may be involved in decisions that impact them as beneficiaries. In these circumstances, a member is required to disclose the conflict and may not participate in the relevant debate or decision.

REFERENCE TABLE

PRINCIPLES	SECTIONS (PP.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 4 Signatories identify and respond to market-wide and systemic risks to promote a well functioning financial system.	- People and Planet: a systemic risk lens (10). - Revisions to our responsible investment policy (14). - Listed equity engagement (20). - Sovereign risk: Russia-Ukraine conflict (22). - Collaborative efforts and policy engagement (22). - Measure and manage climate impact (31). - Public policy and stakeholder engagement (32). - Public policy and engagement with listed companies (33). - Supporting nature and biodiversity on farmland (34). - Social inequality (37). - Just transition (38). - Responsible technology (39).	- In 2022, the Church Commissioners reviewed and refined its RI Policy – the resulting framework being a lens of systemic risk focused on climate change, nature and biodiversity loss, and social inequality, risks we expect will cause significant disruption to markets and society more broadly. - In recognition of the scale of potential negative impacts, we participate in number of collaborative initiatives with investors, experts and NGOs to influence policy makers in responding to these market-wide risks. - We have also worked with similar groups of stakeholders in responding to the Russian invasion of Ukraine in February 2022. Due to our ethical restrictions, our exposure to the conflict was largely limited to non-Russian companies operating in the country; we prioritised engagement with the oil and gas companies that hadn't made commitments to withdraw, given the Russian state's reliance on that sector.
Principle 5 Signatories review their policies, assure their processes and assess the effectiveness of their activities.	- Introduction to our approach (13). - Revisions to our responsible investment policy (14). - A net zero world, not just a net-zero portfolio (31). - Commitment to preventing deforestation (33). - Human rights (37). - Assets Committee (45). - Managing risk (46). - Internal audit (47).	- The Church Commissioners' Assets Committee is the body charged with oversight of the organisation's stewardship activities. The Assets Committee is also supported by an attendee from the Audit & Risk Committee, who is present to observe and comment on proceedings. In addition, ESG factors are incorporated into the organisation's risk register, which is reviewed at executive level and by trustees twice per annum. - The NCI's Internal Audit Department conduct regular audits which include coverage of RI and other stewardship activities, either through specific RI process focused audits, or audits of core investment/operational functions that have RI activities embedded within them. Internal Audits of RI and investment activities are typically undertaken by an external firm appointed as the co-source partner firm. Due to this approach, additional external audit work of RI and investments has not been considered necessary. - The Church Commissioners' stewardship reporting has been produced with the assistance of an external copywriter, reviewed by a number of senior level staff (including the CEO and CIO) and assessed by an external consultant.
Principle 6 Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	- Assets by geography (6). - Who we are and what we believe (7). - Our beneficiaries (7). - Stakeholders (8). - Research into historic transatlantic chattel slave trade links (9). - Breakdown of assets under management (11). - Revisions to our responsible investment policy (14). - Externally managed assets (18). - Listed equity engagement (20).	- The Church Commissioners is a charitable body with responsibility for managing a £10.3bn endowment fund in an ethical and sustainable way. The Church Commissioners' policy is to invest the endowment it manages on behalf of the CofE to provide long-term financing to pay the pre-1998 clergy pension obligations and to make charitable distributions to support the mission of the CofE in perpetuity. - A full valuation of clergy pensions is carried out every three years and it is rolled forward in other years. A full valuation was carried out as at 31 December 2021. - The Church Commissioners communicates to stakeholders representing its beneficiaries in a variety of ways including, publishing information in its Annual Report and Stewardship Report, answering questions at General Synod, responding to MPs' questions in Parliament, engaging with NGOs and civil society groups.

REFERENCE TABLE

PRINCIPLES	SECTIONS (PP.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 7 Signatories systematically integrate stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities.	- Introduction to our approach (13). - Revisions to our responsible investment policy (14). - Responsible stewardship of real assets (16). - ESG Integration (18). - Internally managed assets (18). - Externally managed assets (18). - Controversies process (21). - Sovereign risk: Russia-Ukraine conflict (22). - Expanding our engagement reach (23). - Ethical exclusions (25). - Supporting nature and biodiversity on farmland (34). - Suppliers (43).	- The Church Commissioners integrates its RI Policy at multiple levels of the investment decision-making process. When selecting external investment managers, we assess them against our RI Manager Framework to understand the extent to which they integrate ESG issues in their investment analysis and decision-making. Additionally, we apply an ethical exclusion policy to exclude companies in several different sectors from our direct investments. - Where we hold shares in companies directly, we vote in line with the CIG voting policy, rather than delegating this responsibility to the asset managers to whom we give investment mandates. Where we hold shares indirectly in pooled funds, we expect managers to vote their shares and encourage them to vote in line with a bespoke policy. - When it comes to assessing and reviewing suppliers and service providers, we operate to a robust framework that considers ESG and diversity requirements for all suppliers, as well as risk, and regulatory and ethical standards through our supply chain.
Principle 8 Signatories monitor and hold to account managers and/or service providers.	- ESG Integration (18). - Externally managed assets (18). - Controversies process (21). - Expanding our engagement reach (23). - Ethical exclusions (25). - Voting (26). - Human rights (37). - Suppliers (43).	- We appoint and partner with a wide range of service providers, consultants and agents to efficiently support our investment teams and operations. Regarding investment mandates, we place clear requirements in side-letters with some of our investment managers to integrate financially material ESG factors into their investment analysis and decision-making processes and ownership policies and practices. On rare occasions, managers may deviate from our stewardship policies and expectations. When this happens, we always engage the manager to understand their rationale for doing so and work with them to develop a satisfactory resolution. - In partnership with data provider MSCI, a universe of over 10,000 public equities is screened and updated for involvement in restricted activities, which is then reviewed by the Church Commissioners internal RI team. - We utilise ISS as our proxy voting and corporate research service to implement our bespoke voting policy. This provides complete oversight of our publicly listed holdings and alerts us to 'refer' votes in situations where application of our ethical investment policies is not clear. In these circumstances, the RI team reviews ISS's recommendation, considering both our stewardship policies and approach, and decides on the vote. We annually run due diligence to ensure that our votes have been cast according to our intentions and recommendations. - In 2022, we appointed CTI as our external engagement provider to support engagement with companies on a wide range of ESG issues, complementing the work of our internal team. This service amplifies our stewardship activity, ensuring appropriate resourcing and increasing our sectoral, thematic and geographical reach and influence.

REFERENCE TABLE

PRINCIPLES	SECTIONS (PP.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 9 Signatories engage with issuers to maintain or enhance the value of assets.	Listed equity engagement (20). Controversies process (21). Expanding our engagement reach (23). Voting (26). Climate engagement (32). Public policy and engagement with listed companies (33). Modern slavery (38). Just transition (38). Diversity, equity and inclusion (39). Responsible technology (39).	We engage discreetly with companies to build rapport and encourage them to meet our precise engagement objectives, or if a potentially remediable issue emerges. Where this engagement process fails to achieve the desired results, we will escalate via a range of different avenues, and we reserve the right to divest from companies. We focus our engagement priorities on material ESG issues identified after consultation with a range of stakeholders and with the approval and oversight of our Assets Committee. Examples of direct engagements with companies can be found throughout this report. In 2022, we appointed CTI as our external engagement provider to support engagement with companies on a wide range of ESG issues, complementing the work of our internal RI team.
Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers.	Listed equity engagement (20). Controversies process (21). Collaborative efforts and policy engagement (22). Expanding our engagement reach (23). Climate engagement (32). Public policy and engagement with listed companies (33). Human rights (37). Modern slavery (38). Just transition (38). Diversity, equity and inclusion (39). Responsible technology (39).	We believe that good stewardship and the application of our RI principles are drivers of long-term, sustainable performance and therefore contribute to mitigating risk. Nonetheless we are cognisant of systemic, market-wide risks. This is why, in addition to our own direct engagement with companies, we work as part of collaborative initiatives with other stakeholders, such as investors, experts and NGOs. Examples of these collective and multi-stakeholder engagements, as well as their outcomes, can be found throughout this report.
Principle 11 Signatories, where necessary, escalate stewardship activities to influence issuers.	Listed equity engagement (20). Controversies process (21). Expanding our engagement reach (23). Voting (26). Climate engagement (32). Human rights (37). Just transition (38).	We assess current and prospective investment managers against our proprietary RI Manager Framework which includes specific criteria on active management. Additionally, our side letters also require managers to engage with investee companies on ESG issues when appropriate and report back on how they are integrated into investment decisions and active ownership activities. We have developed precise engagement objectives on issues including climate change, nature and biodiversity loss, social inequality and human rights. We engage discreetly with companies to influence their behaviour; where this process fails to achieve the desired result, we will escalate via a range of different avenues. An example in 2022 was the restriction of two companies who failed to meet the carbon emissions hurdles set by the NIBs as assessed by the TPI. Other examples of escalation with companies can be found throughout this report.

REFERENCE TABLE

PRINCIPLES	SECTIONS (PP.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 12 Signatories actively exercise their rights and responsibilities.	Revisions to our responsible investment policy (14). Responsible stewardship of real assets (16). ESG Integration (18). Externally managed assets (18). Listed equity engagement (20). Credit (26). Voting (26). Summary of voting policy (28). Climate engagement (32). Public policy and engagement with listed companies (33).	We exercise voting rights on all our shares where we have the ability to vote directly. In exercising our voting rights, we apply the CIG voting policy. We utilise ISS as our proxy voting and corporate research service due to its wide research coverage and agility in implementing our bespoke voting policy. In addition, we confirm monthly that all our listed managed accounts are correctly set up in order to ensure that we vote all our shares. We annually run due diligence to ensure that our votes have been cast according to our intentions and recommendations. A small proportion of our shares are on loan, they amount to less than 0.5% of our assets under management, and we follow the ICGN's Code of Best Practice and aim to recall all stocks ahead of companies' meetings. In pooled fund mandates our external asset managers retain the voting rights for shares in the portfolio. In these cases we encourage managers to vote on all shares and to vote in line with a bespoke policy as well as practise active ownership in their voting by informing companies of their voting decisions when voting against management. Examples of how we vote against management resolutions and shareholder resolutions can be found throughout this report.

ABBREVIATIONS AND GLOSSARY

Anglican Communion – global Anglican family of Churches.

CIG – Church Investors Group, an organisation representing the charitable and pension funds of denominations, dioceses, religious orders and Christian-based charities. The Church Commissioners is a member.

DE&I – diversity, equity and inclusion.

EIAG – The Church of England Ethical Investment Advisory Group, which provides independent ethical investment advice to the CofE's three NIBs.

Five Marks of Mission – the Five Marks of Mission were developed by the Anglican Consultative Council in 1984. Since then, they have been widely adopted as an understanding of what contemporary mission is about. The Marks – tell, teach, tend, transform and treasure – were adopted by the General Synod of the CofE in 1996 and many dioceses and other denominations used them as the basis of action plans and creative mission ideas.

GHG – greenhouse gases.

GP – general partner.

Loss and Damage – a term used in the UN climate negotiations to refer to loss and damage which cannot be addressed by mitigation and adaption, and generally affects the poorest countries.

LP – limited partner.

Manager – fund/investment manager.

NCIs – National Church Institutions.

Net Zero Asset Owner Alliance (NZAOA) – the UN convened Net Zero Asset Owner Alliance is comprised of asset owner members who are committed to transitioning their investment portfolios to net zero in line with the Paris Agreement.

NIBs – National Investing Bodies, consisting of three entities:

- The Church Commissioners for England manages an investment portfolio to support the work and mission of the CofE across the country, including grants for mission activities, bishops and cathedrals.
- The CBF Church of England Funds are collective investment schemes managed by CCLA Investment Management Ltd in which nearly 13,000 CofE parishes, dioceses, schools and church charitable trusts invest. CCLA is predominantly owned by its church and not-for-profit clients.
- The Church of England Pensions Board is a regulated pension fund which provides retirement services (pensions and housing) for approximately 41,000 members who minister in or work for the CofE. It also holds some charitable funds for other purposes.