CHURCH COMMISSIONERS *for* ENGLAND

AN ETHICAL AND RESPONSIBLE APPROACH

Stewardship Report 2023

WELCOME TO THE CHURCH COMMISSIONERS' STEWARDSHIP REPORT 2023

We are pleased to share our latest Stewardship Report, which 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. Our work is grounded in the themes 'Respect for People' and 'Respect for the Planet', which are underpinned by 'good corporate governance'. This document has been prepared to meet the reporting obligations of the UK Financial Reporting Council's (FRC) Stewardship Code and the Principles for Responsible Investment (PRI).

General Synod 2023, Church House

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Brownhills Forest and South Kyle Wind Farm

INTRODUCTION

The Church Commissioners is a charitable body established in 1948, with a strategic focus to support the Church of England's mission and ministry in perpetuity.

FIRST CHURCH ESTATES COMMISSIONER LETTER

"The Church Commissioners, as an in-perpetuity faith-based endowment investor, must take the long view, allocating capital with an eye on intergenerational equity"

Alan Smith is the First Church Estates Commissioner, chairing the Church Commissioners' Assets Committee, a statutory committee responsible for the strategic management of the Church Commissioners' investment portfolio. Alan Smith also sits on the Church Commissioners' Board of Governors and is a member of the Church of England's General Synod and a trustee of the Archbishops' Council.

2023 marked the 75th anniversary of the Church Commissioners and the 320th year of existence of the Investment fund that we steward.

In 2023, we celebrated the 155th year of owning the Hyde Park Estate, one of the largest single holdings in our portfolio – which we have held since 1868 and whose stewardship commenced under the very first First Church Estates Commissioner, an office created in 1850.

The Church Commissioners, as an in-perpetuity faith-based endowment investor, must take the long view, allocating capital with an eye on intergenerational equity. So we must know our past to understand our present. And we invest to play our part in creating a flourishing future for all, doing so in an ethical, responsible way.

2023 was another busy year. It was the first year of the 2023-2025 Triennium in which we have committed to distributing £1.2 billion in support of the Church's mission – a 30% increase on the prior triennium. We are doing so against a backdrop of significant global economic and geopolitical uncertainty, and an accelerating climate crisis.

This requires disciplined risk management to navigate a challenging investment outlook and make sure we can meet our ongoing commitments to funding the Church's mission. Despite all this, 2023 was the fifteenth year of consecutive positive returns for our endowment fund – an impressive feat that owes much to our outgoing Chief Investment Officer, Tom Joy.

Taking the long view necessitates that we engage with intent on one of the biggest issues of our age – the climate crisis. To protect God's creation and pass on a world that future generations can live in, we need to see a net zero world, and not just our own net zero portfolio. That means investing in a way that helps bring that world about.

To that purpose, we published our updated Climate Action Plan, which lays out how our investments support the transition to a low-carbon economy. Under our 'whole portfolio' approach, we use all available levers to bring about real-world change – engagement, voting, exclusions, and of course actively investing in real-world solutions.

2023 was also the year in which we disinvested from fossil fuel companies, following a decade of engagement. To assess their alignment with the aims of the Paris Agreement, we used data from the Transition Pathway Initiative. None of them, at that time, met the criteria. And so we disinvested.

The decision to disinvest was not easily made and was not solely based on ethical considerations, but also on financial ones. After all, firms that do not take the energy transition seriously are unlikely to be good long-term investments in a rapidly decarbonising world.

And we already have significant investments in companies helping to build that post-fossil fuel world – in areas like charging stations, solar power, and energy storage.

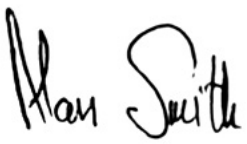
Managing the risks of a 320-year-old fund requires us to identify the risks of the past and understand how they inform our present, so that we act for the better in the future. After all, financial risk management models are at their core exercises in history – the interrogation of historical data sets to inform our current risk profile so that we can act wisely for the future.

In January 2023, the Church Commissioners reported on its historic links with Transatlantic African Chattel Enslavement. We had commissioned Grant Thornton to determine whether the Church Commissioners had any historic links to Transatlantic African Chattel Enslavement. They deployed forensic techniques on our historic ledgers – detailed transaction analysis, account reconstruction, and asset tracing. Their work was complemented by that of professional historians. This work revealed that we had significant investments in the South Sea Company – an entity set up to trade in enslaved Africans.

That shameful truth – that we were involved in the profoundly immoral act of treating our fellow human beings as chattel, as property in pursuit of corporate returns on investment – made us reflect on how we, as an ethical and responsible investor, should act, looking ahead, to build a better future. To heal, repair, and bring justice, the Board committed to setting aside £100 million to seed a new in-perpetuity impact investment fund to seek that better future, and this was approved as an integral part of our funding plans at our AGM in June 2023.

We are encouraging others to walk alongside us and help us as we grow that new fund through their contributions, and by investing well. We will take the time to shape it wisely and responsibly.

Indigenous North American peoples are sometimes said to operate to a philosophy of "The Seventh Generation Principle" – meaning that the decisions we make today should result in a better world seven generations into the future. In meeting our mandate to provide the maximum sustainable funding to support the mission and ministry of the Church of England, the Church Commissioners, as a Christian, faith-based investor, operates to the same principle. We invest in a way that puts people first – and protects the planet.



Alan Smith
First Church Estates Commissioner

YEAR IN REVIEW

Highlights

- **Defined** our strategic priorities for climate change, nature, and social inequality over the next three years to enhance our responsible investment approach across the portfolio.
- **Published** the first allocation and impact report for the Church Commissioners' £250 million sustainability bond with a 10-year maturity.
- **Published** the first report detailing Our Approach to Sustainability for Real Assets, along with the second ESG Report for Strategic Land.

Climate

- **Restricted** the last 11 oil and gas majors based on their non-alignment with the Paris Agreement as the last step in our 2018-2023 engagement programme with high-emitting companies.
- **Restricted** companies whose primary business is derived from oil and gas exploration, production and refining, unless they are on a genuine pathway to transition in alignment with a 1.5°C scenario.
- **Published** a Climate Action Plan outlining our approach to address climate change moving forward and the aim to achieve net zero investment portfolio GHG emissions by 2050.
- **Co-led** the Policy track at the Net-Zero Asset Owners Alliance (NZAOA), which published the report 'Unlocking Investment in Net Zero' during New York Climate Week and the UN General Assembly.

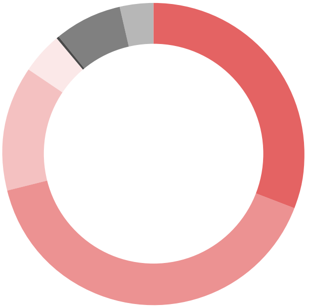
Nature

- **Participated** as part of the Launching Investor Group for Nature Action 100 (NA100) and sent letters to the 100 companies in scope, calling for urgent and necessary actions to protect and restore nature and ecosystems and thereby mitigate financial risk.
- **Inaugurated** the South Kyle wind farm, which includes 35 turbines on the Church Commissioners' land, representing 168 megawatts (MW) of renewable energy generation capacity.
- **Helped** to establish a new Cluster Group comprised of farmers and land managers seeking to restore historic marshland on the Hoo Peninsula through knowledge sharing and advice on public and private finance.

Social inequality

- **Voted** against or withheld our support for the re-election of directors at almost 100 companies for failing to meet our expectations on human rights.
- **Co-led** engagement with over 25 ESG data providers and proxy-advisors, as part of a group of 15 investors with almost $6 trillion in assets under management, setting out our long-term needs as users of human rights data.
- **Achieved** a draft housing allocation to deliver up to 1,500 homes (40% affordable housing) at Horton Farm, addressing the significant housing shortage in Epsom and Ewell.

Assets by geography (31 December 2023)



UK	31.1%
North America	40.1%
Europe and Middle East	13.5%
Asia ex. Japan	4.4%
Japan	0.3%
Emerging markets	7.2%
Global	3.4%
Total	100.0%

AWARDS

- The Environmental Finance IMPACT Awards: Winner for the category 'Endowment/Foundation of the year' in 2023.
- The UK Green Business Awards: Shortlisted for the category 'ESG Investor of the Year' in 2023.

WHO WE ARE AND WHAT WE BELIEVE

The Church Commissioners is a charitable body established in 1948. Its strategic focus is 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 £10.4 billion (as of December 2023).

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 our investments consistently make positive contributions aligned with 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 Church Commissioners beneficiaries are a diverse and varied group, ranging from clergy pensioners (for service prior to 1998) to dioceses and parishes, community organisations and others who benefit from the Church Commissioners charitable distributions. Further details of our beneficiaries can be found in our Annual Report.

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 Responsible Investment team reports regularly throughout the year to the Assets Committee on our stewardship approach and activities. These include 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 provide feedback, and decisions are made. As a result of the honest and informed feedback we receive from our trustees, we are confident that our stewardship reporting is fair, balanced, and understandable.


Chichester Estate

We regularly source expert external opinion for areas of new development and new investment strategies. This external opinion complements the due 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.

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 returns support the CofE's ministry by:

- Funding mission activities such as church community 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.


General Synod 2023, Church House

KEY STAKEHOLDERS:

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 policymakers (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 LINKS TO AFRICAN CHATTEL ENSLAVEMENT

The Church Commissioners, in 2019, decided to conduct research into the source of the endowment fund it manages, to gain a better understanding of its history, and to better understand its present. 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 African chattel enslavement. The Church Commissioners is deeply sorry for its predecessor fund's links with African chattel enslavement.

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 who profited from African chattel enslavement 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 and its links to African chattel enslavement.

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 enslavement, 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.

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 for all. It will seek to do this through committing £100 million of funding to a programme of investment, research and engagement.

An oversight group was set up in 2023, with significant membership from communities impacted by the historic transatlantic chattel slave trade. This group presented a series of recommendations to the Church Commissioners' Board on response.

The response from the Church Commissioners will comprise:

- Establishing a new £100 million 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
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A RESPONSIBLE, ETHICAL INVESTOR

Our role as a responsible investor is to challenge and encourage the approach of businesses where we invest and to support an enabling environment for sustainable development. 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 demonstrating positive outcomes 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 considerations into everything we do.

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.

Our approach is shaped by advice from the Church of England Ethical Investment Advisory Group (EIAG), whose role is to provide practical and timely ethical advice, enabling the Church Commissioners to invest in a way that is Christian and distinctly Anglican, reflecting the views of our beneficiaries and key stakeholders. By interpreting Scripture, the Christian tradition and reason, the EIAG's guidance allows us to address and respond to complex ethical questions, as well as consider systemic ESG risks posed by our 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.

The Church Commissioners is a universal asset 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 – which distinguishes us from pension funds who may have a much larger allocation towards passive strategies.

In addition, the Anglican Communion's Five Marks of Mission identifies the world that we seek to create, and therefore serves as 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

Our approach to Responsible Investment is based on connected pillars of "Respect for People" and "Respect for the Planet".

Our approach to Respect for People is an intrinsic part of the Fourth Mark of Mission and is a critical aspect of addressing the systemic risks of climate change, nature loss, and 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.

General Synod 2023, Church House

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

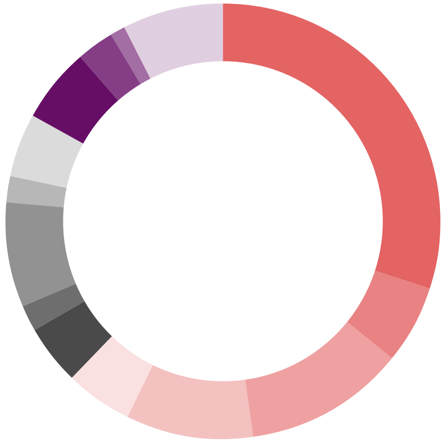
Further to the above, we believe that good governance is at the heart of successful business and investment. As a responsible investor, we believe that robust consideration of corporate governance practices underpins sustainable wealth creation, the protection of shareholder capital, and the integrity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

WHO WE ARE AND WHAT WE BELIEVE
continued

The Church Commissioners also recognises that there are systemic risks that will likely cause significant disruption to the financial system, the economy and wider society. Climate change, nature degradation and social inequality represent three key systemic risks whose effects are already being seen across the planet and societies. These interconnected systemic risks provide a lens through which to focus and guide our Responsible Investment activities when building on the pillars of Respect for People and Respect for the Planet.

Examples of where we seek to affect positive change at these intersections include our work with companies on just transition planning, where decarbonisation 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.

Breakdown of assets under management (31 December 2023)



Public equities	30.1%
Defensive equities	6.0%
Absolute return	11.8%
Private equity	9.5%
Venture capital	5.0%
Timberland	4.3%
Infrastructure	2.1%
Credit strategies	7.6%
Commercial	2.0%
Residential	4.8%
Rural	5.5%
Strategic land	2.9%
Indirect property	1.0%
Portfolio hedges	0.1%
Cash, and cash-like assets	7.3%

29.4%
proportion of internally managed assets 31 December 2023
(31 December 2022: 26.7%)

Church Commissioners visit to the South Durham Estate

Educational trip for members of the Church Commissioners Farmland and Responsible Investment teams

OUR APPROACH

Our 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 systematic approach to systemic issues. 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 responsible investment (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 2023, the NCIs rolled their expanded set of values: Strive for Excellence, Show Compassion, Respect Others, Collaborate, and Act with Integrity. These sit beneath the NCIs' purpose to serve the mission and ministry of the Church, heeding the Archbishops' call for a simpler, humbler, bolder Church.

At the end of 2023, 82 people worked for the Church Commissioners' Investment Division. Within this division six people were dedicated to the RI team. 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 Investment Services 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 Chief Investment Officer, the Head of People, and the Head of Responsible Investment who reports to the Chief Investment Officer.


RI strategy day


Bartonsham Meadows
Photo: Tom Booth

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, disinvestment, 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, including responsible investing, consulting, environmental law, human rights, and shareholder engagement. In 2023, in addition to the Head of RI, the RI team included a Director of Responsible Investment Integration, a Social Lead, and three responsible investment analysts, and we hired a Planet Lead who started in April 2024. In early 2023, we also recruited a climate data analyst to assist in bringing RI and climate data into the organisation-wide IT systems.

The team also works alongside a Sustainability Lead and 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.

OUR RESPONSIBLE INVESTMENT POLICY

We are committed to tackling climate change, nature loss and social inequality to mitigate the significant and complex portfolio-wide risks they pose and encourage a societal shift to more sustainable practices for the benefit of all life on Earth. We recognise that for transitions to net zero and nature-positive economies to succeed, they must be 'just transitions' grounded in respect for people.

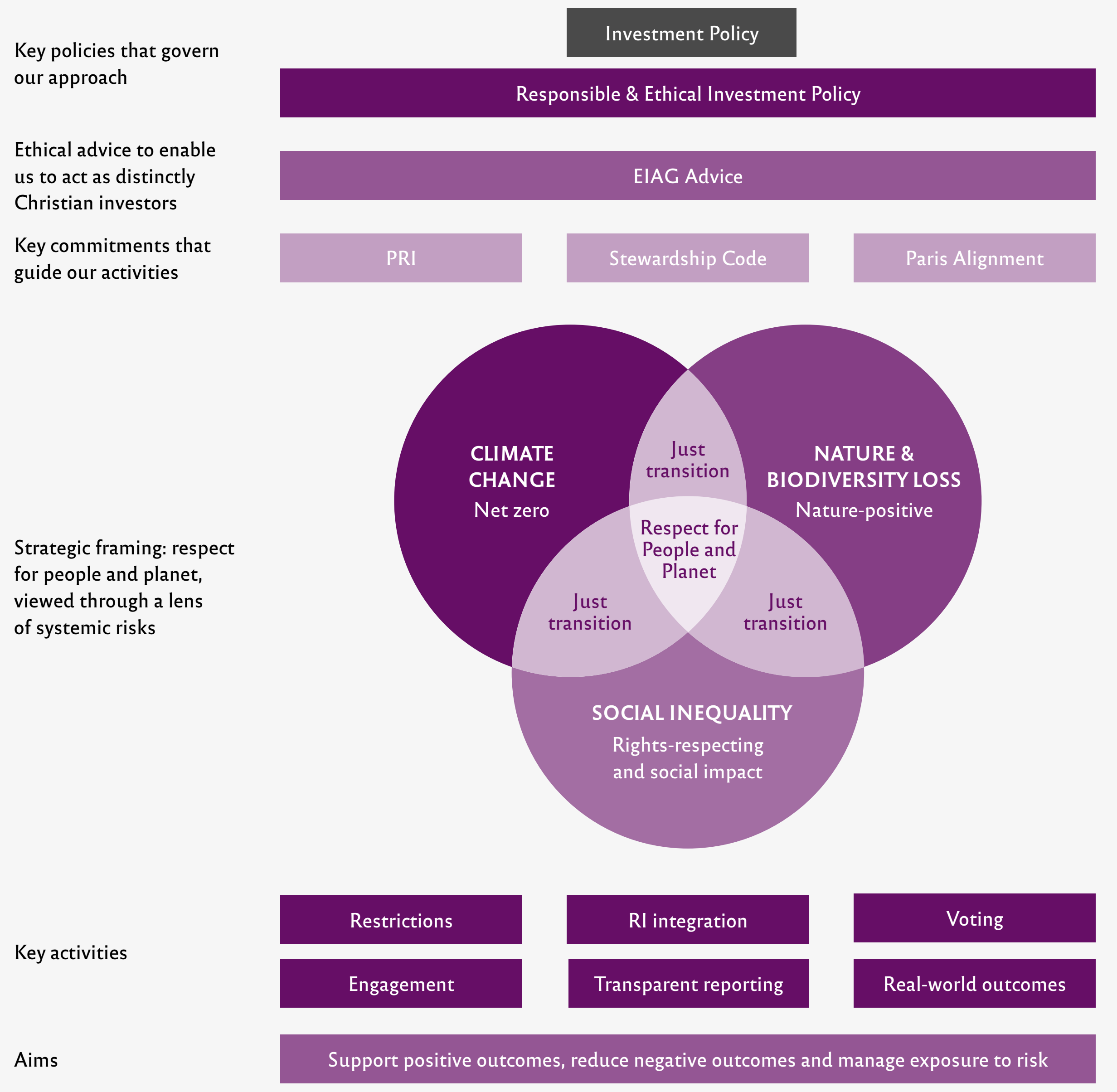
We believe that taking account of ESG issues is an intrinsic part of being a good investor. We hold this belief for both ethical and financial reasons. We see opportunities to encourage corporate and regulatory/policy action that tackles these multiple systemic challenges and unlocks significant opportunities 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 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) and the UK's 2020 Stewardship Code, and we are committed to being aligned to the Paris Agreement.

The solutions to the challenges posed by the systemic risks of climate change, nature 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.

OUR APPROACH TO RI



OUR RESPONSIBLE INVESTMENT POLICY continued

Nature Friendly Farming network event for Church Commissioners' tenants

STRATEGIC OBJECTIVES FOR THE RESPONSIBLE INVESTMENT TEAM

FOCUS	CLIMATE CHANGE	NATURE LOSS	SOCIAL INEQUALITY
Data and evidence	Providing portfolio-wide climate data to support target-setting and inform integration and influence outcomes	Collecting and interpreting ESG data	Ensuring appropriate social-related data is available and obtained for the whole portfolio, to support integration and collaboration
Integration	Incorporating climate risk and impact in the investment process	Developing policies and sub-portfolio action plans to support RI integration	Integrating social risk and impact management across all asset classes
Collaboration and influencing outcomes	Influencing stakeholders to move towards a net zero transition and investing in climate solutions	Leading and engaging on key biodiversity industry-wide collaborations	Identifying, monitoring and supporting key sustainability initiatives

Advancing our strategy
In November 2023, the RI Team held a team strategy day, which included input from key stakeholders including the Chief Investment Officer (CIO), the Managing Director of Investment Strategy, the Bishop of Manchester (at the time the Deputy Chair of the Church Commissioners and a member of the EIAG), the Head of Real Assets and the First Church Estates Commissioner. Following on, the RI team has designed strategic priorities for the next three years, to enhance our responsible investment approach across the portfolio, which have been approved by our Assets Committee. Key objectives for these priorities can be found in the table above.

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 £2.5 billion. These asset types are grouped into two broad categories: Land (60% of the portfolio's total value) and Built Environment and Infrastructure (40%). 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 and Infrastructure assets are made up of commercial property and residential properties along with infrastructure investments that are focused on renewable energy and transportation. Based on our assessment completed in 2022, emissions relating to farmland are the most significant.

OUR RESPONSIBLE INVESTMENT POLICY continued

In March 2023, we published our Strategic Land ESG report, which provided a baseline analysis of the portfolio's performance across a range of factors including climate change, biodiversity, housing access & affordability, strategic land stewardship, and business integrity & ethics. Then, in July, we published Our Approach to Sustainability for Real Assets. Focusing on our Real Assets portfolio, the report outlines the strategic framework in approaching sustainability, lists key challenges, estimates current emissions, and gives examples of recent initiatives and next steps. We developed four overarching sustainability principles that guide our approach. We look to take action that recognises the interdependence of long-term stewardship and long-term value; to create change that has a real impact; to focus on our key spheres of influence and expertise; and to take forward initiatives that will have the biggest real-world results.

In adopting these principles, we have further developed our strategy over 2023 and identified areas where we believe we can make the biggest difference. Our priorities are to support the increasing adoption of regenerative farming practices; and the increased and appropriate use of land to facilitate renewable energy, nature creation, and the delivery of sustainable homes and communities. Alongside this we also focus on the energy efficiency of our buildings and support farm worker welfare. Initiatives, many of which are highlighted in this report, are ongoing to support these priorities.

KEY LONGER-TERM OBJECTIVES WHERE WE CAN MAKE THE BIGGEST IMPACT

Sustainable farming

Increased and appropriate use of our land to facilitate

Increased adoption of REGENERATIVE FARMING PRACTICES

Integration of RENEWABLE ENERGY

NATURE CREATION

The delivery of SUSTAINABLE HOUSING AND COMMUNITIES

Energy reduction across buildings

Support worker welfare

Accessible communication

SUSTAINABILITY BOND

In July 2022, the Church Commissioners raised £550 million via a debt bond issue, which consisted of a £300 million conventional bond with a 30-year maturity, and a £250 million sustainability bond with a 10-year maturity.

The bond issuance is similar to the strategy adopted by many other endowment funds. The money raised will be invested on a long-term basis, enhancing the fund's capital efficiency and offering the potential to generate additional value for the endowment fund. The sustainability bond forms part of our integrated approach to responsible investment, where one of the key levers for change is to invest in environmentally and socially beneficial investments. Full details can be found in the Allocation and Impact report.

The proceeds of both the conventional and sustainability bond will be invested according to the Church Commissioners' responsible investment approach, with the proceeds of the sustainability bond used solely to support existing and future eligible environmental and social activities, as set out in the Church Commissioners' Sustainable Financing Framework (June 2022) (SFF).

Under the guidance of the Church Commissioners' SFF, we committed to utilising the proceeds of the sustainability bond to fund eligible sustainable investments within a five-year investment window spanning from:

- A lookback period of no more than two years prior to the date of issuance (i.e., July 2020 to July 2022); to
- A maximum of three years after issuance (i.e., July 2022 to July 2025).

The investment window is for investing directly in assets and co-investments and committing capital to funds which are deemed eligible as fund managers, in accordance with our SFF, and for which the underlying investments are estimated to be made in line with the eligible sustainability themes laid out in the SFF. While we measure the use of proceeds as committed capital, we will ensure that this is matched by £250 million in drawn down capital (i.e., the capital the fund manager has invested in companies) invested in eligible companies. From time to time, a fund manager will make an investment which does not fall within our categories laid out in the SFF; in these cases the drawn down capital will not be allocated towards the sustainability bond. Instead, we plan to overshoot the committed capital by an appropriate level to ensure that £250 million is allocated towards eligible underlying investments. Of the £220.7 million committed capital:

£187.5 million

has been allocated to seven funds, managed by seven fund managers;

£30.2 million

has been allocated to three co-investments with two fund managers; and

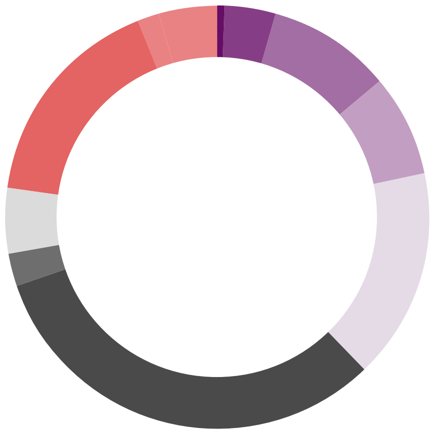
£3.1 million

has been allocated to three direct investments.

There were no new eligible commitments to funds in 2023, but the eligible funds have invested more of the committed capital. Accordingly, in the period between July 2020 and December 2023, the total value of the commitments to eligible investments for the bond proceeds is £220.7 million (equivalent to 89% of total net proceeds from the sustainability bond). The change on the commitment reported last year (£227.7 million) is caused by a change in the approach taken to exchange (FX) rate conversions. In our 2023 report, we used the FX rate as of 31 December 2022 to convert the committed capital, drawn down capital and net asset values into sterling (GBP). From this report onward, we will fix the FX rate applicable for each investment as of the day of commitment and apply that to all drawdowns.

In the 2023 sustainability bond report, we showed the distribution of the underlying investments against the SFF themes and the UN Sustainable Development Goals (SDGs), based on net asset values of underlying companies/investments. In accordance with the updated ICMA Guidance from November 2023, we have updated our methodology to calculate the distribution between themes and SDGs based on the cost of each investment. We show the distribution between the different themes from our SFF and across relevant SDGs, excluding fees and "other" (non-aligned) investments in the graphs (right and below).

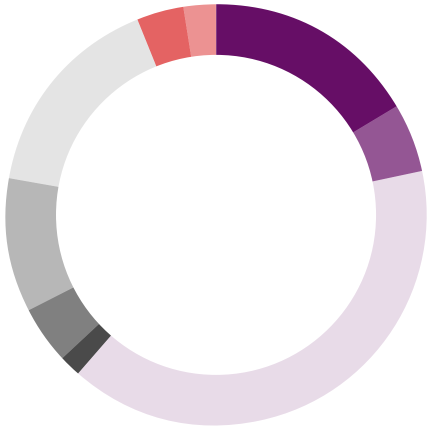
Investment allocations by eligible sustainability themes (SFF) (Allocation as of 31 December 2023 based on drawn down investment cost)



Clean transportation	0.8%
Climate change adaptation	3.7%
Green buildings	9.6%
Energy efficiency	7.8%
Pollution prevention and control	16.0%
Renewable energy	32.1%
Sustainable land use and management of natural living resources	2.4%
Sustainable water and waste water management	0.0%
Access to essential services (Education)	0.0%
Access to essential services (Healthcare)	5.1%
Affordable housing	16.6%
Employment generation	1.8%
Socioeconomic advancement and empowerment	4.3%

SUSTAINABILITY BOND
continued

Investment allocations by UN SDG (Allocation as of 31 December 2023 based on drawn down investment cost)



1 – No Poverty	16.6%
3 – Good Health and Well-Being	5.1%
7 – Affordable and Clean Energy	39.8%
8 – Decent Work and Economic Growth	1.8%
10 – Reduced Inequalities	4.3%
11 – Sustainable Cities and Communities	10.4%
12 – Responsible Consumption and Production	16.0%
13 – Climate Action	3.7%
15 – Life on Land	2.4%

In preparing the Allocation and Impact report, Institutional Shareholder Services (ISS) was appointed as external reviewer to confirm the allocation of proceeds to eligible activities in line with International Capital Markets Association (ICMA) Sustainability Bond Guidelines (2021) and as outlined in our SFF. The outcome of this assessment can be found here.

CASE STUDY: NG Group (Summa Equity)

NG Group is a leading provider of circular solutions in the Nordics and the largest provider of recycling and environmental services in Norway, with facilities also in Sweden, Denmark and Poland. The company operates waste management infrastructure involving the upstream collection, sorting and pre-processing of waste as well as downstream material recycling and recovery, with a focus on expediting the shift towards a circular economy. In 2023, the NG Group handled more than two million tonnes of waste, 96% of which was recycled through material and energy recovery.

Supplied: Summa Equity

ESG INTEGRATION

We review all new investments from an RI perspective by integrating ESG considerations as appropriate for the type of investment made.

INTERNALLY MANAGED ASSETS

We incorporate ESG considerations into all asset classes, including internally managed assets like our real estate. With regards to real estate, 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 exclusions policies. We do this by considering material environmental and social issues as part of our due diligence process, and employing property managers after a tender process that includes ESG considerations such as health and safety, fire safety, disability non-discrimination, environmental and sustainability policies, modern slavery, 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

Most 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. This means that while we require them to exclude companies with specific activities, e.g., thermal coal mining (through our Ethical Screening, explained below), we do not choose the individual companies that go into our portfolio. Therefore, the choice of asset manager is important to ensure alignment and coherence with our responsible investment approach.

RI manager framework

We assess our current and prospective asset managers across all asset classes against our proprietary RI Manager Framework. Asset managers must meet our minimum expectations in each category to qualify as investable. Where a manager fails to meet our minimum expectations, before deciding not to invest, we will engage with them 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 seek to reflect ESG commitments in agreements with our fund managers. This could include expectations to engage with investee companies on ESG issues when appropriate and to report on how specific ESG risks and opportunities have been integrated into investment decisions and active ownership activities. We also take steps to ensure that our fund managers exclude from the mandate investments that are identified to be in breach of the Church Commissioners' Responsible and Ethical Investment Policy. Where breaches are retrospective as a result of revisions to the policy, or because the business of the underlying investee company has evolved, we ask our fund managers to promptly notify us of the situation and provide assistance in respect of any disinvestment.

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.

CREDIT

In 2023, our credit holding can be split into two separate asset classes: public credit and private credit, which in total account for 7.7% of the overall fund (as at year-end 2023). In public credit, we own publicly traded and relatively liquid sovereign and corporate bonds and loans. At the start of 2023, we had meaningfully less exposure to public credit with yields only moderately attractive. However, as the year went on, yields marched higher, peaking in around September, and we took the opportunity to incrementally add to our public credit exposure. In private credit, our investments are focused on loans to private companies, and the allocation was relatively steady over the year. In both public and private credit, we incorporate our sovereign and corporate restricted lists and work with our managers to encourage bonds and loans to be structured in a manner which takes account of ESG criteria.

Hereford Estate
Photo: Jobie Hoar

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION

LISTED EQUITY ENGAGEMENT

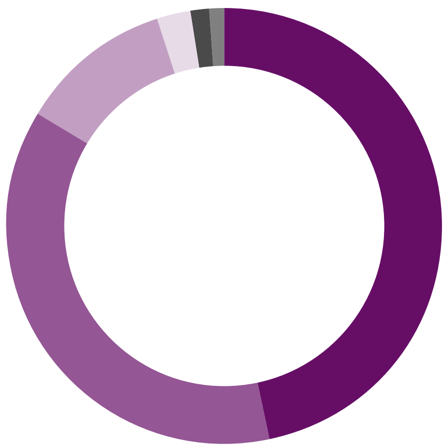
We believe, based on our own experience and assessment of academic studies, that engagement is the most effective way for investors, like the Church Commissioners, to bring about substantial improvements in a company's performance on ESG issues. It can also lead to an increase in shareholder returns. This is why we engage with companies, rather than immediately disinvesting, if a potentially remediable issue exists or emerges.

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

In 2023, our in-house team carried out 489 direct engagements with 417 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.

Church Commissioners visit to Matthews Mill

Company engagements by geography



North America	46.8%
Europe	37.0%
Asia (ex. Japan)	11.2%
Japan	2.5%
Other	1.4%
Unknown	1.0%

489

direct engagements with

417

companies

Company engagements split by themes and topics

Environmental engagements by theme	49.0%
CA100+ specific	2.9%
Climate change	50.2%
Biodiversity	41.8%
Deforestation	5.0%
Social engagements by theme	51.0%
Human rights	54.2%
Mental health	42.6%
Modern slavery	0.4%
Responsible technology	2.8%

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION
continued

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 loss, and social inequality) and human rights including:

- **Climate change:** In May 2023, the Commissioners announced that it would vote against directors at the next annual general meetings (AGM) of ExxonMobil, Occidental Petroleum, Shell, and Total in response to their failure to set adequate climate change objectives. Further details can be found in the Climate Engagement section of this report.
- **Nature loss:** In 2023, we continued working as part of the investor collaboration Finance Sector Deforestation Action (FSDA) to engage with and support companies in meeting specific expectations in relation to ending deforestation.
- **Social inequality:** In 2023, we continued working as part of the World Benchmarking Alliance's collaborative engagement programme on AI Ethics, which expects companies to not only publish their Ethical AI Principles, but to also disclose how they are implementing them in practice.
- **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.

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. This includes adapting our engagement approach in ways that are sensitive to the business cultures that different companies operate in. 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.
- Disinvestment.

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

Photo: Ian Yemm

EXPANDING OUR ENGAGEMENT REACH

In 2023, we continued with 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 and complements our existing work on climate change, nature loss and social inequality, ensuring appropriate resourcing and increasing our sectoral 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 publish a specific policy, e.g., human rights policy; or supporting a specific initiative such as the Task Force on Climate-related Financial Disclosures (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 2023, CTI engaged on our behalf with 302 companies from 27 different countries. Of those engagements, 52% were with North American companies, 32% were with European companies, 9% were with companies based in Asia (excluding Japan), 5% were with Japanese companies and 3% were with companies based in other regions. 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: ArcelorMittal

CTI engaged with steel producer ArcelorMittal regarding a fire, triggered by a methane gas explosion, that occurred at one of its coal mines in Kazakhstan, killing 46 employees. CTI had already spoken with ArcelorMittal on the issue of safety, as previous fatalities indicated that the company wasn't effectively handling occupational safety in the country. ArcelorMittal outlined the remediation steps being taken following the fire, which included payments to the affected families. They also explained that 'complex' geology and a 'risk-taking culture' were exacerbating risks that had contributed to the incident. CTI was disappointed by the company's explanation, considering it inadequate. ArcelorMittal stated that more information will be provided following a third-party audit of the whole company's safety practices, which is expected to be published in mid-2024. CTI will re-engage the company on the issue of safety following the publication of the auditor's report.

CASE STUDY: Mitsubishi UFJ Financial Group

CTI engaged with financial services group Mitsubishi UFJ Financial Group (MUFG) regarding their management of climate risks. In April 2023, the company expanded their financed emissions targets to cover commercial and residential real estate, shipping and steel, and expect 70% of their loan book to be covered by targets by June 2024. During engagements with the company, CTI has sought further information regarding MUFG's approach to setting financed emissions targets and their fossil fuel lending policies, along with the implementation of these targets and how they assess credibility of their clients' transition plans. CTI notes that MUFG have responded well, and it will continue to engage with the company on areas including phasing out thermal coal mining, assessing clients' transition risks and MUFG's environmental and social policy and risk management framework.

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION
continued

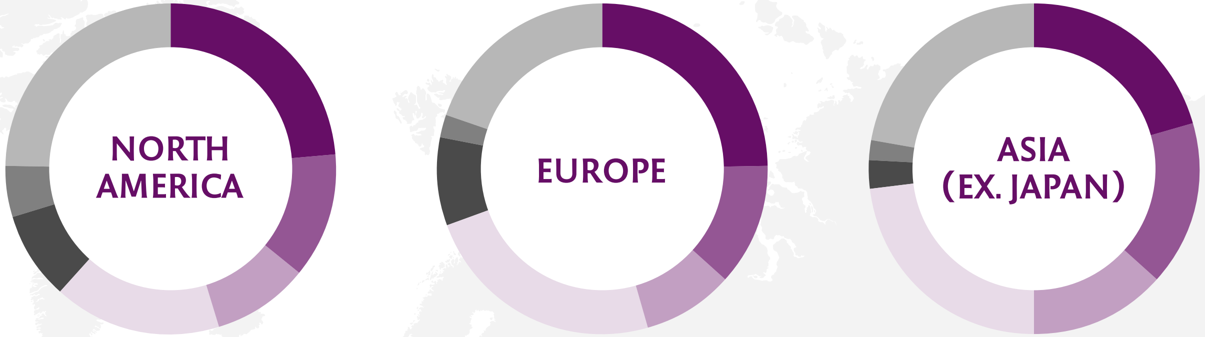
CASE STUDY: PepsiCo

CTI engaged with food and beverage company PepsiCo regarding media reports which alleged migrant children had been working in US factories run by Hearthside – one of PepsiCo's suppliers – and were subjected to long hours, overnight shifts, and hazardous conditions. CTI initially wrote to PepsiCo to express its concerns and subsequently met with the company's Head of Human Rights to discuss the case in further detail. Following this dialogue, CTI believes that PepsiCo have taken steps to mitigate the risk of a similar situation occurring in the future, such as by mandating stronger age verification during recruitment.

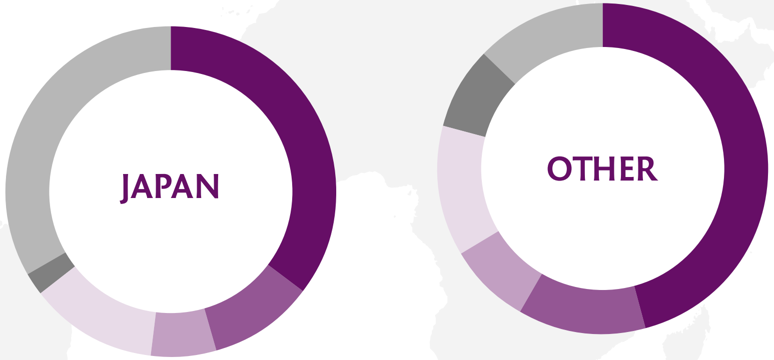
CASE STUDY: CoStar Group

CTI engaged with real estate consultancy CoStar Group regarding a shareholder proposal requesting the company adopt GHG emissions reduction targets aligned with Paris Agreement goals. Despite the company releasing its first emissions report in February 2023, and adding ESG responsibilities at board level in December, CTI expressed concern that the company lagged peers in establishing robust GHG reduction targets and signalled that it would likely support the proposal. Following this engagement, CoStar Group signed a public commitment letter to set near-term and long-term science-based greenhouse gas emission reduction targets in accordance with the Science Based Targets initiative (SBTi).

2023 issues engaged by geography



	North America	Europe	Asia (ex. Japan)
Climate change	23.8%	24.9%	20.7%
Environmental stewardship	12.2%	11.8%	16.0%
Human rights	9.3%	8.9%	13.3%
Labour standards	16.4%	24.0%	23.3%
Public health	8.7%	8.6%	2.7%
Business conduct	5.0%	2.2%	2.0%
Corporate governance	24.6%	19.5%	22.0%



	Japan	Other
Climate change	35.4%	45.8%
Environmental stewardship	10.4%	12.5%
Human rights	6.3%	8.3%
Labour standards	12.5%	12.5%
Public health	0.0%	0.0%
Business conduct	2.1%	8.3%
Corporate governance	33.3%	12.5%

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION
continued

ETHICAL EXCLUSIONS
Our duty 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.

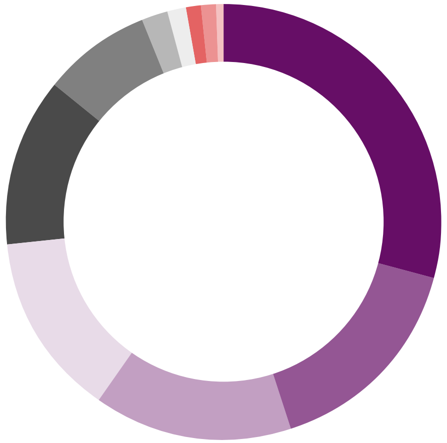
The Church Commissioners exclude from direct investments any companies that are involved in indiscriminate weaponry, conventional weaponry, non-military firearms, pornography, tobacco, alcohol, gambling, high-interest rate lending, extraction of thermal coal and production of oil from oil sands, subject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

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 Russia's invasion of Ukraine, make up a hard-coded restricted list, which is implemented by our investment managers alongside the standard ethical policies screen.

In 2023, we worked to improve the governance and systems covering our ethical restrictions. This included the integration of ESG data into our IT systems to enable us to run the screening process 'in-house,' at the same time as tendering for a new data provider. We also updated our climate-related thresholds, to restrict all companies making more than 20% of their revenue from the exploration, production and processing of oil and gas.

Outcome
Following a competitive tender process, the Church Commissioners selected Morningstar-Sustainalytics as the next ethical and controversy screening provider. Because we contracted an additional data provider in 2023, our screened universe was significantly larger than in 2022. We also expanded the scope of our climate restrictions. Consequently, our list of restricted companies grew from 435 to 711 at the end of 2023. In addition, we excluded 133 companies based on criteria including failed engagement following a norms-breach controversy and being domiciled in Russia.

Breakdown of excluded companies by type of restriction



Climate change	248
Special excluded	133
Alcohol	124
Gambling	116
Defence	104
Tobacco	68
Predatory lending	17
Cluster munitions/landmines	12
Cannabis	10
Firearms	9
Adult entertainment	3

844
companies excluded from direct investment on ethical grounds

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

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 to, or linked to human rights impacts. Where issues are identified, we aim to engage with the companies, either directly, via our managers, or via our third-party engagement provider. Where a satisfactory outcome is not going to be achieved via engagement, we will consider disinvestment.

In 2023, prior to a new investment mandate, we identified relevant jurisdictions where there were heightened risks of human rights harms and procured additional data to support due diligence of potential investee companies. Where credible allegations of companies being linked to egregious human rights abuses were identified, and where we considered that there was either a minimal chance of meaningful engagement with the company or where engagement could actually pose risks for staff of the company, we took the decision to restrict a small group of companies prior to the investments being made.

DIRECT ENGAGEMENT: LISTED EQUITIES, POLICY AND COLLABORATION

continued

Outcome

After a three-year engagement with an extractives company, we disinvested in 2023. We initially raised concerns with the company regarding their respect for the right to Free, Prior and Informed Consent (FPIC), their failure to implement the Voluntary Principles on Security and Human Rights and their failure to fully assess, mitigate and remedy impacts on water and human health. While there was initially useful engagement with relevant staff and board members, we did not see a sufficient commitment to address our concerns and so made the decision to restrict the company.

ENGAGING ON CONFLICT

The risk of companies becoming involved in human rights abuses is particularly high in situations of conflict and political instability. With geopolitical tensions rising globally, it is essential that businesses operating in conflict-affected and high-risk areas conduct heightened human rights due diligence to reduce their risk of causing, contributing or being linked to harms arising from war and conflict. In 2022, we reported that there were competence gaps in the industry relating to conflict sensitive due diligence and were therefore pleased to see the launch of the 'Investor Toolkit on Human Rights & Armed Conflict' in March 2023 by the Responsible Investment Association for Australia (RIAA). We subsequently discussed how investors should respond to conflict-affected investments at a PRI In-Person side event in Tokyo, with RIAA, EIRIS Foundation Conflict Risk Network and Finance for Peace.

We have also been involved with the development of the Investor ESG Guide on Private Security and Human Rights, which aims to increase awareness of human rights risks associated with investees that use private security and support investors to address these risks – we supported its public launch in late 2023.

Finally, we participated in a Business and Conflict Community of Practice hosted by the Geneva Peace Building Platform, which brought together a diverse group of stakeholders and experts to develop networks, share knowledge and discuss issues at the intersection of human rights and conflict. These bi-monthly online discussions culminated in a day-long workshop in Geneva in November 2023, where attendees participated in roundtable and panel discussions on topics including heightened human rights due diligence and conflict-related tools available to investors.

POLICY ENGAGEMENT

Creating a policy environment that is conducive to our responsible investment approach is crucial when undertaking system level stewardship. It elevates the effectiveness of our engagement across the portfolio and creates an enabling environment for responsible investment, increasing the efficiency of capital allocation and leading to more sustainable outcomes. We see policy engagement as a new frontier in investor stewardship, addressing material issues which can't be addressed on a company-by-company basis, and that require broader policy reform. As a result, we engage with policymakers, politicians and members of parliament on specific issues through either collaborative initiatives or with assistance from the NCIs' Parliamentary team. Examples of our activity in this area can be found throughout this report including our role leading key industry initiatives including Co-Chairing the Investor Policy Dialogue on Deforestation, Chairing the UKSIF Policy Committee and Co-Leading the Net Zero Alliance Policy workstream.

UN Palais des Nations, Geneva

COLLABORATIVE EFFORTS

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 policymakers 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.

Collaborations and industry initiatives enable us to amplify our voice as we engage on issues that are important to us. This can include influencing change, sharing knowledge and best practice. The initiatives we participate in include: Better Buildings Partnership; CDP; Climate Action 100+ (CA100+), ESG Data Convergence Initiative; Farm Community Network (FCN); Farming Wildlife Advisory Group (FWAG); Fenland SOIL; Finance Sector Deforestation Action (FSDA); Financing a Just Transition Alliance (FJTA); Find it, Fix it, Prevent it modern slavery initiative (FFP); Global Investor Commission on Mining 2030; IIGCC Net Zero Engagement Initiative; Institutional Investors Group on Climate Change (IIGCC); Investor Policy Dialogue on Deforestation (IPDD); Nature Action 100 (NA100); Nature Friendly Farming Network; National Trust Land Owners Initiative; Powering Past Coal Alliance; Principles for Responsible Investment (PRI); Science Based Targets initiative (SBTi); Transition Pathway Initiative (TPI); UN-convened Net-Zero Asset Owner Alliance (NZAOA); UK Sustainable Investment and Finance Association's (UKSIF) Green Taxonomy Working Group; and Wildfowl & Wetlands Trust (WWT).

VOTING

OUR 2023 VOTING IN NUMBERS:

13,346

votes cast (of which 95.0% were management resolutions)

22.7%

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

72.5%

shareholder resolutions supported

VOTING

Voting at company annual general meetings (AGMs) provides an opportunity to help shape company governance and behaviour on environmental and social topics. The Church Commissioners exercises shareholder voting rights on all shares where we have the ability to vote directly (i.e., on shares held in segregated, rather than pooled, accounts).

In exercising our voting rights, we build on the Church Investors Group (CIG) voting guidelines. The CIG is an organisation representing the charitable and pension funds of Christian denominations, dioceses, religious orders and Christian-based charities. The CIG voting guidelines set out an 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.

To implement these voting guidelines, we utilise Institutional Shareholder Services (ISS) as our proxy voting and corporate research service provider. Where application of our voting policy is not clear, the RI team reviews ISS voting recommendations and makes a determination on the vote with consideration to our ethical investing policies. Additionally, the RI team reviews recommendations on shareholder resolutions and other AGMs of interest (according to the company and/or type of resolution). Following review, we observed deviations from our voting policy of less than 0.2% of total votes cast in 2023.

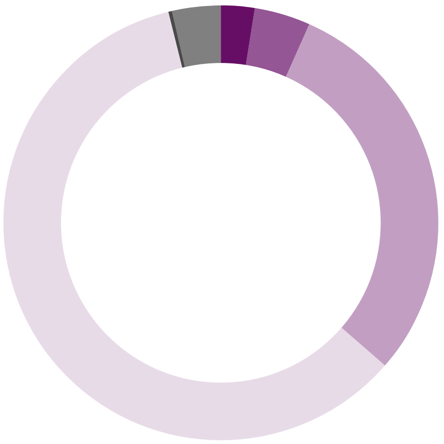
USING OUR VOTE TO DISSENT

When it comes to using our vote, the main areas that trigger dissenting votes are board composition and executive pay (59.7% and 29.9% of dissenting votes on management resolutions respectively). On board composition, the most frequent reasons that triggered a dissenting vote were concerns about audit independence, combined CEO and Chair roles, and gender diversity. Gender diversity was a contributing factor to dissenting votes on the re-/election of 100 directors across 87 companies in 2023. We complement this voting action with participation in the 30% Club, an investor initiative that brings together more than 40 investors with £11 trillion AUM to drive change with companies on inclusion and diversity.

Predeclaring votes against directors

As an escalation of our engagement with oil and gas producers, we also predeclared votes against several directors for a lack of progress on climate change. To read more about our voting against directors due to inaction on climate change, see page 31.

Management resolutions (dissenting votes cast by topic)



- Annual reports and accounts 2.7%
- Capitalisation 4.0%
- Compensation 29.9%
- Director-related 59.7%
- Miscellaneous 0.3%
- Re-organisation and mergers 3.5%

Shareholder resolutions (supporting votes cast by topic)

- Corporate governance 48.0%
- Environmental and social 38.1%
- Miscellaneous 13.9%

VOTING
continued

CASE STUDY: Supporting action on climate change

The largest category of environmental and social resolutions that we voted on in 2023 was climate, representing 9.5% of all shareholder resolutions voted on. Throughout the year we supported 46 climate-related shareholder resolutions. Of those, 18 were filed at financial services companies (including banks and insurers) which have seen increased calls to align their financing with the goals of the Paris Agreement. Eleven of the resolutions requested the financial services companies restrict financing to fossil fuel companies, while six asked for disclosure of fossil fuel financing.

At oil and gas producers we supported seven shareholder resolutions at companies that had annual general meetings before we made the decision to restrict those companies from investment. These included resolutions asking Exxon Mobil Corp. to report on methane measurement, which received 36.4% support, and another asking TotalEnergies SE to align its 2030 scope 3 targets with the goals of the Paris Agreement, which received 30% support.

We also voted against several resolutions that aimed to stymie climate action at companies. The number of these types of resolutions has risen drastically in the US since 2023.

CASE STUDY: A focus on Big Tech

In 2023, we supported eight resolutions at four Big Tech companies that related to the impact of their products and services on society. This included two resolutions at Meta Platforms, Inc., with one requesting the company publish a third-party assessment of the human rights impacts of its targeted advertising policies and practices, and another asking the company to assess the impacts of its platform on children. These demands align with the expectations set out in our Big Tech policy, informed by advice from the EIAG.

CASE STUDY: Piloting systematic voting on human rights

In 2023, we piloted systematically integrating human rights into our voting at company AGMs. The pilot was designed to bring to life our Human Rights Policy commitments and our expectations that companies demonstrate respect for human rights, in support of improving responsible business conduct and addressing systemic risks. The outcome of this pilot was that we voted against the re-election of relevant directors at more than one hundred companies, based on their failure to meet our human rights expectations. Following this action, we also wrote to each company outlining our voting decision and rationale for doing so. To read more about our approach to integrating human rights into responsible investment, see page 38.

SHARES ON LOAN

A small proportion of our shares are on loan. We follow the International Corporate Governance Network (ICGN)'s Code of Best Practice and aim to recall all stocks ahead of companies' meetings. We receive daily reports from our custodian allowing us to monitor share recalls ahead of the record dates. 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 have a presumption to vote in favour of resolutions that further environmental and social goals.

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.
Human rights Human Rights Policy	- Respect for human rights.	- Against re-election of board chair where the company shows no disclosure of a policy commitment to respect human rights or to conduct human rights due diligence.


Chichester Estate

RESPECT FOR THE PLANET

Climate change and nature loss pose systemic risks to the global economy that we cannot diversify away from.

CLIMATE

The Church Commissioners recognises climate change is an urgent crisis and a systemic risk to the global economy. It is likely to affect every person, business and ecosystem on the planet, particularly the poorest and most disadvantaged, unless dramatic steps are taken to transition to a low-carbon economy.

This is why 196 governments came together at the 21st Conference of the Parties (COP) meeting in Paris in 2015 and agreed to limit the average global temperature increase to well below 2°C, preferably 1.5°C above pre-industrial levels, in what is called the Paris Agreement. To limit the global temperature increase to 1.5°C, it is vital that global GHG emissions are reduced to be less than what the world can absorb, i.e., "net zero GHG emissions" by mid-century. The physical effects of climate change and the transition to global net zero is a significant disrupting factor to the global economy and affects how investors need to act to meet their fiduciary mandates.

2018 Synod Motion on climate change

In July 2018, the national assembly of the Church of England, General Synod, passed a motion on climate change. This motion affirmed support for action on climate change and welcomed the establishment of the Transition Pathway Initiative (TPI) and disinvestment from companies focused on coal mining and the production of oil from oil sands.

In addition, General Synod urged the Church Commissioners to engage robustly with companies rated poorly by TPI, and to start disinvesting in 2020 from those not taking seriously their responsibilities to assist with the transition to a low-carbon economy. It also urged the Church Commissioners to disinvest by 2023 from fossil fuel companies that failed to align with a 2°C pathway as assessed by TPI.

Finally, it urged the Church Commissioners to scale up their investments in renewable energy and low carbon technology and requested a report on progress be made within three years. The actions the Church Commissioners have taken to address the 2018 Synod Motion on climate change are summarised throughout this report.

Bartonsham Meadows during floods in 2023
Photo: Bill Laws

A NET ZERO WORLD, NOT JUST A NET ZERO PORTFOLIO

In simple terms, a net zero world means cutting human caused greenhouse gas (GHG) emissions to as close to zero as possible, with any remaining emissions being re-absorbed from the atmosphere, by oceans and forests, for instance.

We cannot stop climate change ourselves, but we can be an active part of the solution, driving change and influencing our stakeholders to contribute to the transition to a low-carbon economy. To that end, we continuously set short-term climate goals and milestones (with new interim targets to be established by 2025) in addition to our long-term ambition of achieving a net zero portfolio by 2050. Ultimately, our focus is on real-world change, so our strategy is guided by three questions:

- How can the real economy get to net zero?
- What are the levers the Church Commissioners can use to bring about this change?
- How can we maximise our influence?

To answer these questions and prioritise our efforts, we have adopted a framework which sits within our overall approach to responsible investment and is adapted from the Impact Management Project's framework on investor contribution to impact. Our framework includes three levers:

1. **Aligning our processes, which is crucial for a system-level change.**
2. **Engagement, which ranges from having a dialogue with tenants, to large international companies and policymakers.**
3. **Investing in solutions that are aligned with the energy transition.**

CLIMATE
continued

ALIGNING OUR PROCESSES

Aligning our processes enables us to address climate change through best practice policies and processes, including by excluding activities that we do not believe are part of the transition, allocating capital to managers that factor climate change into their investment decisions and participating in industry groups and initiatives addressing the issue. We recognise that these actions may not have an impact in isolation, but they are crucial contributions to the efficiency and sustainability of the market more broadly and can affect real-world change when adopted at scale. Our governance, policies and how we select and monitor managers (ESG integration) are key aspects of meeting our climate commitments. In addition, we have the following climate-specific commitments and processes in place.

Net zero commitment

In 2020, the Church Commissioners joined the UN-convened Net-Zero Asset Owner Alliance (NZAOA), now comprised of 87 members representing US$9.5 trillion AUM, formalising our commitment to transition our investment portfolio to net zero GHG emissions by 2050. Our commitment to having a net zero investment portfolio by 2050 is the cornerstone of our commitment to addressing climate change and is a commitment to align with the Paris Agreement. Being a member of the NZAOA means that we have committed to setting interim targets every five years, reporting on progress and working with other Alliance members to progress the work of the NZAOA.

In 2023, this included co-leading two work tracks – Monitoring, Reporting and Verification (MRV), which develops how members set targets, and the Policy track, which engages with policymakers around the world. Through the MRV track we have worked to improve accountability of Asset Owners as well as to streamline reporting requirements and reporting for the wider industry. Setting targets publicly is a way for us to show support for net zero-aligned regulation and Government policies as well as climate action by companies.

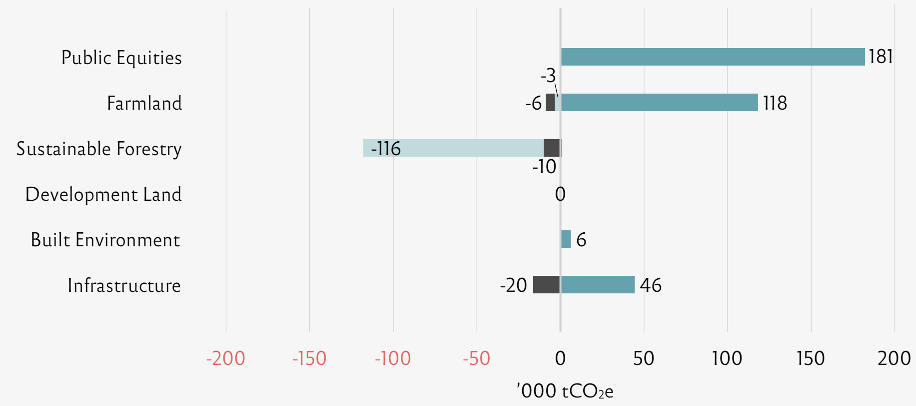
Outcome

In 2021, the Church Commissioners set a target to reduce the carbon footprint of the public equity and real estate portfolios by 25% based on a 2019 baseline by 2025. The carbon footprint is a measure of CO_2 equivalent emissions per million pounds (GBP) invested. The current carbon footprint is 68% lower than the baseline, significantly exceeding the target ahead of time. The primary driver is a reduction of emissions in the public equity portfolio.

While we believe the reduction in emissions for the public equity portfolio is very positive, we need to understand why the emissions are lower. Sector and geographic location of a company are the two main drivers of whether a company's emissions are high. A large part of the emissions reduction of the public equity portfolio has come from excluding investments in oil and gas companies, and other high carbon emitting companies that failed the hurdles from the 2018 Synod Motion.

South Kyle Wind Farm

Our estimated carbon emissions profile



For public equity, ISS scope 1 and 2 emissions data is as of 31 December 2023. For infrastructure, the scope 1 and 2 emissions and avoided emissions data is the latest available for the portfolio as of 31 December 2023. For Farmland, Development Land and Built Environment, scope 1, 2 and operational scope 3 emissions are included. Forestry emissions show net carbon stock changes over 2022 and include an allowance for temporary sequestration post harvesting. 383,000 tCO2e were estimated to have been harvested (with associated operational emissions included) and -499,000 tCO2e sequestered.

Measuring the climate footprint of the portfolio

To align our portfolio with the goals of the Paris Agreement, we need to first understand the current climate impact of our investments. As a result, we're continuing to increase the amount and quality of emissions data across the portfolio, so we can prioritise action where emissions are highest. Currently, we collect data for Scope 1 and 2 emissions as well as operational Scope 3 emissions for Real Assets. However, this is not the whole picture. Scope 3 emissions (beyond operational Scope 3 emissions for the Real Assets portfolio), which measure the value chain emissions of a company or asset, often far outweigh operational emissions. In addition, we need information on the direction of travel of the investments and whether they provide climate solutions.

While the information we have across the portfolio is not yet complete, it is improving over time. We continue to work on collecting more emissions information – both in terms of quantity and quality – as well as other relevant data. It is a complex process.

The Greenhouse Gas Protocol Corporate Standard

The GHG Protocol Corporate Standard provides requirements and guidance for companies and other organisations preparing a GHG emissions inventory. It classifies a company's GHG emissions into three 'scopes'.

- Scope 1 emissions are direct emissions from owned or controlled sources.
- Scope 2 emissions are indirect emissions from the generation of purchased energy.
- Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Outcome

The coverage of reporting has increased to 53% of the portfolio, led by an increase in scope 1 and 2 GHG emissions data for the infrastructure portfolio to >90%. Reporting challenges include comparability and different formats of information, which make it difficult to aggregate.

CLIMATE
continued

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. Our priority stakeholders for engagement are:

- Tenants across our Real Assets portfolio
- Key engagements with large public companies
- External asset managers
- Policymakers
- Key industry initiatives that drive climate action

We're involved in collaborative engagements and initiatives, where we take both supporting and leadership roles. The Church Commissioners is a founding member of the Transition Pathway Initiative (TPI), investor engagement leads in the CA100+ global engagement initiative and supporting members of the Net Zero Engagement Initiative. In addition, the Church Commissioners supported CDP's (formerly Carbon Disclosure Project) campaign asking companies to set science-based targets. In total, 308 financial institutions supported the campaign which sent letters to 2,132 companies.

In 2023, the Church Commissioners engaged extensively with its stakeholders and sought to communicate our approach to our net zero target. In February 2023, the First Church Estates Commissioner participated in a fringe event at Synod, presenting our approach to climate change to Synod members. After receiving positive feedback on the content, we produced a short video on how we invest for a net zero world, a report for Synod concluding the five years of engagement and exclusion, a Climate Action Plan, and a report on our approach to sustainability in real assets.

We also reported back on the 2018 General Synod motion on climate change, where the Church Commissioners committed to engaging with high carbon emitting companies and fossil fuel companies, and excluding those fossil fuel companies who failed to align with the Paris Agreement by 2023. To monitor progress, we put in place a series of hurdles since 2020 that required companies to meet progressively more ambitious climate change performance criteria, which were then used to help inform any exclusion or disinvestment decisions.

In June 2023, having increased the intensity of our engagement with these companies in the lead up to General Synod, we reviewed the 11 oil and gas majors remaining in our investible universe, ultimately finding that none were aligned with a 2°C pathway in the short, medium, and long term, according to TPI. The thresholds were set at 2°C as that was the prevalent pathway at the time (to see more on the difference between 1.5°C and 2°C, see the NIBs' Approach to Climate Change). The decision to exclude fossil fuel companies, based on their failure to align with a 2°C pathway, was presented by the First Church Estates Commissioner at Synod in York in July, with members from the Responsible Investment and Real Estate team also in attendance to engage with Synod members.

Outcome
In May 2023, the Church Commissioners announced that it would vote against directors at the next annual general meetings (AGM) of ExxonMobil, Occidental Petroleum, Shell, and TotalEnergies in response to their failure to set adequate climate change objectives. This followed many years of actively engaging with fossil fuel companies in an effort to increase their ambitions to set climate targets and align their businesses to the energy transition. While we had seen improvements, all major fossil fuel companies fell short of aligning with the Paris Agreement.

Outcome
In June 2023, the Church Commissioners announced that no oil and gas majors were aligned with a 2°C pathway in the short, medium, and long term, according to TPI data. The Church Commissioners, therefore, decided to restrict BP, Ecopetrol, Eni, Equinor, ExxonMobil, Occidental Petroleum, Petroleos Mexicanos, Repsol, Royal Dutch Shell, Sasol Limited, and TotalEnergies from our portfolio. In addition, the Church Commissioners added all companies with their primary business in oil and gas exploration, production and refining to our restrictions by the end of 2023.

CLIMATE EXCLUSIONS

We think the best strategy to influence change is through engagement. This applies to climate change, our net zero target, and other issues of importance. However, even when we see change among companies, it is not always on a large enough scale or at a timeline that we deem acceptable. In these cases, we assess whether further engagement is merited or if it's best to avoid the exposure to further risk by disinvesting, which also means giving up our 'seat at the table'. Following a decade of engaging with high-emitting companies, we are taking steps to exclude those that we do not believe are preparing to be part of the energy transition, and instead are focusing our engagement efforts with companies that we believe will play an important role in the transition. This has led us to the following revised approach to climate-focused exclusions:

- **2015:** Exclude any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from oil sands.
- **2018-2023:** Exclude fossil fuel and other high-emitting companies that have failed the hurdles set in response to the 2018 Synod Motion.
- **2023:** By the end of 2023, exclude companies whose primary business function is derived from exploration, production and refining oil or gas, unless they are on a genuine pathway to transition in alignment with a 1.5°C scenario.

We did not take the decision to exclude fossil fuel companies lightly. Fossil fuel companies could be significant contributors to mitigating climate change, which would make an energy transition smoother.

CLIMATE
continued

A decade of engagement has resulted in significant improvements and increased ambitions by many companies in the sector in setting climate targets and transition strategies. However, there is also a growing gap between the targets and strategies set out publicly by fossil fuel companies and how they invest their capital. We have lost confidence in these companies' intention to be part of the energy transition and have decided to restrict them from investment. If these companies make genuine demonstrable and measurable efforts to transition their businesses in line with a 1.5°C scenario, we would be prepared to revisit this decision and potentially remove the companies from our exclusions.

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. Investing in solutions covers a range of activities. It includes investing directly in sustainable forestry, funds investing in climate infrastructure or green buildings, or investing in shares of large, listed companies that help decarbonise the economy through funds that have a general mandate that fits within our responsible investment approach. When it comes to solutions-based investments, we have taken positive steps within our portfolio to meet our climate objectives:

>75%

of our commitments to infrastructure funds are to funds invested either purely in climate solutions or with a significant majority of their investments in climate solutions.

At least 20%

(by area) of our UK forests are managed with biodiversity as the primary objective.

Supplied: OIC

CASE STUDY: ZincFive (OIC)

The Church Commissioners is invested in ZincFive, a nickel-zinc battery manufacturer based in Tualatin, Oregon. The company specialises in the development of battery cabinets that provide an uninterruptable power supply, bridging the short window of time between when a power outage occurs and backup generators start up. The nickel-zinc batteries produced by ZincFive have several advantages over traditional battery chemistries (i.e., lead-acid and lithium ion) including improved reliability and minimal fire risk.

CASE STUDY: Supporting the clean energy transition

The Church Commissioners have granted rights to Northern Lithium Limited (NLL) to undertake exploration and extraction of lithium and other minerals from saline brines in Weardale, County Durham. The establishment of a sustainable and domestic source of lithium will improve the security and resilience of the UK's critical minerals supply and contribute to the government's strategy on the issue. NLL are seeking to have their first full production site from 2027, with a goal of eventually producing 10,000 tonnes of battery grade lithium per year.

In total, our investments in assets that address climate change and in publicly listed companies focused on climate solutions add up to more than £760 million, as of December 2023. Additionally, we support and enable initiatives in other parts of the portfolio. For example, we work with our farming tenants to invest in climate solutions, such as gaining consent for renewable energy (e.g., installation of solar panels), supporting improvements to slurry infrastructure or updating lease terms to ensure climate resilience. We have also invested with external asset managers who are investing in line with the energy transition (although these funds are not categorised as a solution), and in funds which have a broader focus on environmental and social impact combined with the aim of setting science-based targets for the companies in the fund.

PUBLIC POLICY ENGAGEMENT ON CLIMATE

Net-Zero Asset Owner Alliance (NZAOA): Policy workstream

The Policy workstream has played a significant role in engaging with policy makers in the US, the UK, Japan, China and at the European Commission and feeds into the Glasgow Financial Alliance for Net Zero (GFANZ), and the UN High-Level Champions Finance workstream.

Outcome

The Church Commissioners co-led the Policy track at the NZAOA, which published a paper on the economic case for net zero during New York Climate week and the UN General Assembly. The publication 'Unlocking Investment in Net Zero' received significant global press and interest from UK politicians and other governments including Japan, US, Germany, Switzerland, Norway, Sweden, Italy, and Canada who the policy workstream had engaged with in the lead up to COP28.

UK Sustainable Investment and Finance Association (UKSIF) Policy Committee

The Church Commissioners chairs the UKSIF Policy Committee and is represented on the Government's Green Technical Advisory Group (GTAG) Advisory Board, an independent expert group appointed to advise the UK Government on standards for green investment. As part of these roles, we led and coordinated UKSIF industry responses to the Financial Conduct Authority (FCA) on topics including listing rules, sustainability disclosures, fiduciary duty and ESG ratings.

Outcome

In November 2023, the FCA published its Sustainability Disclosure Requirements (SDR) Policy Statement – a package of measures to help consumers navigate the market for sustainable investment products and counter greenwashing. UKSIF had provided substantive industry feedback which was taken on board by the FCA and reflected in the policy statement.

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

The IIGCC is an investor membership organisation that works to develop guidance, tools, frameworks, and support mechanisms to facilitate investors in managing climate risk within their portfolios and making the most of opportunities presented by the transition of the global economy. 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.

Transition Pathway Initiative (TPI)

The Transition Pathway Initiative, based at the London School of Economics and Political Science (LSE), is an independent, authoritative source of research and data into the progress being made by the financial and corporate world in making the transition to a low-carbon economy. The Church Commissioners was a co-founder of the TPI in 2017 and sits on the Board of TPI Limited.

Outcome

In December 2023, TPI released the ASCOR tool which gives investors data and insights into sovereign exposure to climate risk and how governments plan to transition to a low-carbon economy, publishing its first assessment of 25 key countries. The project is supported by several global investor networks including the NZAOA.

NATURE

A significant proportion of economic activity and financial assets, such as marine fisheries, timberland and agricultural production, are dependent upon healthy ecosystems. Environmental degradation presents an existential threat to these ecosystem services in the same way as climate change does; it is a systemic risk we cannot diversify away from.

We engage with companies, policymakers and our tenants to understand and address the impacts and dependencies on nature within our portfolio. A cornerstone of our approach has focused on addressing deforestation, a topic which sits at the heart of climate change, food scarcity and water security, all issues that many parts of the world are struggling to address. 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 established a Deforestation Policy in 2022, and are continuing to work with others on this topic and the broader issue of nature loss.

ENGAGEMENT WITH LISTED COMPANIES AND POLICY MAKERS

Finance Sector Deforestation Action (FSDA)

The FSDA initiative brings together financial institutions with more than US$8 trillion AUM for the purpose of using engagement and active ownership to strive 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. This commitment was made at COP26 in Glasgow. The collective engagement now has over 30 investors engaging over 80 companies with the highest exposure to agricultural commodity-driven deforestation. In 2023, the Church Commissioners led engagements with two large supermarkets and two consumer goods companies, and supported engagements with another five companies. The Church Commissioners also sit on the FSDA's Steering Committee.

Investor Policy Dialogue on Deforestation (IPDD)

IPDD is a collaborative investor initiative set up in July 2020 to engage with public agencies and industry associations in Brazil, Indonesia, and consumer-side countries on the issue of deforestation. The Initiative includes 80 financial institutions from 20 countries with approximately US$10 trillion in assets under management and has the support of the Tropical Forest Alliance (part of the World Economic Forum) providing the secretariat. This is the world's first investor collaborative sovereign engagement and is providing a model for other sovereign engagement. The Church Commissioners are Co-Chairs of the initiative, sit on the management committee, and created and lead the Indonesia workstream.

Bartonsham Meadows
Photo: Lisa Stevens

Outcome

In 2023, we engaged with key stakeholders in Indonesia, including both the Jakarta Stock Exchange (IDX) and Kadin (Chamber of Commerce) – both of which we have signed MOUs with – and key Ministry at COP28 to discuss encouraging sustainable finance to protect and enhance forest cover.

Nature Action 100 (NA100)

NA100 involves 190 institutional investor participants – representing $23.6 trillion in AUM or advice. The initiative has been designed to engage companies across eight key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. The Church Commissioners were founding members of NA100 and are members of the NA100 Launching Investor Group.

Outcome

In September 2023, following the release of a set of investor expectations in June, the Launching Investor Group sent letters to the 100 companies in scope, worth more than US$9 trillion in market capital, calling for urgent and necessary actions to protect and restore nature and ecosystems and thereby mitigate financial risk.

NATURE
continued

Church Commissioners visit to Brownhills Forest

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 2023, 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. The timberland portfolio is estimated to be absorbing, net of emissions, approximately 116,000 tCO_2e per year (baselining exercise published in 2023).

Our sustainable forestry portfolio, as of 2023, consisted of about 88,000 acres. These holdings are in the US (67% by area), the UK (26%) and other locations (6%). All our forests are managed in a sustainable way by investment managers who have specialist knowledge and training in this asset class and forest ecosystems.

Outcome

South Kyle wind farm, located in Ayrshire and Dumfries & Galloway, was inaugurated in 2023. The development includes 35 turbines on the Church Commissioners' land, representing 168 megawatts (MW) of renewable energy generation capacity. The renewable energy produced from the site will help avoid significant carbon dioxide emissions for decades to come, and funding from the development provides significant long-term financial benefits to the local community.

HYDE PARK ESTATE

Stretching across 90 acres of London's W2 and adjacent to Hyde Park itself, the Estate consists of about 1,700 residential, commercial, and retail properties as well as gardens, both traditional squares and within residential complexes. The Church Commissioners owns the freehold of over 300 buildings across the Estate which includes over 1,300 individual houses or flats.

The Estate's gardeners use a greenhouse in one of the gardens to propagate seeds and cuttings, increasing the number of plants grown on the estate and reduce the carbon impact of transporting them from elsewhere. This works alongside other initiatives to boost biodiversity and wellbeing.

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

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.

Farming and Wildlife Advisory Group (FWAG)

We believe that farming tenants are best placed to farm and manage the land. At the same time, it is vital to ensure that sustainable and nature-friendly farming principles are adopted and reflected in the lease provisions. To support this approach, in 2023 the Church Commissioners partnered with FWAG to carry out Farm Letting Environmental Assessments across new tenancies. This includes bespoke grant advice, recommendations on margin improvement and in field activities, requirements for soil testing, data sharing and collaborative environmental targets. The Farm Letting Environmental Assessments will support the future of our holdings from both a productivity and environmental perspective by identifying where environmental improvements can be made by our incoming tenants. Over time we hope to carry out an assessment for all our farms, encouraging more sustainable practices, resilient farm businesses and linking habitats across entire estates.

Restoration of wildlife and wetlands

In March 2023, we brought farming tenants and representatives from the Royal Society for the Protection of Birds (RSPB) together at our Rochester Estate to discuss reversing the decline in the area's bird populations through wetland management and improvements to Sites of Special Scientific Interest (SSSI). We followed up with an event at Elmley National Nature Reserve on the Isle of Sheppey in July, where tenants, local landowners, land managers and the RSPB discussed ways to improve both environmental and economic sustainability within grazed systems.

Outcome

This work culminated in the formation of a new Cluster Group comprising farmers and land managers seeking to restore historic marshland on the Hoo Peninsula through knowledge sharing and advice on public and private finance.

Connaught Village, Hyde Park Estate

NATURE
continued

Promoting biodiversity through tenancy agreements
In April 2023, we agreed a lease with Hereford Wildlife Trust (HWT) at Bartonsham Meadows, Hereford. This agreement will help restore the land to a more natural state and create a wildlife haven for nature and people alike. Plans are in place to plant grass and wildflowers, restore ancient hedgerows, reintroduce cattle grazing, and allow for seasonal flooding.

Then, in September 2023, the Church Commissioners also signed a tenancy agreement with Natural England to allow for improved management and enhancement of biodiversity across two fields of additional land at Wybunbury Moss, a National Nature Reserve (NNR) near Crewe, Cheshire. The agreement will protect the species-rich area's moss from nutrients and restore its fields to a more natural state through the reintroduction of livestock grazing and the propagation of ancient hedgerows and wildflower species.


Fenland SOIL tenant workshop

Fenland SOIL
The Church Commissioners continued its involvement in Fenland SOIL in 2023. 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.

Following Fenland SOIL's flagship event 'Exploring the future of Lowland Peat', the Church Commissioners hosted tenants at a workshop to discuss the current challenges and opportunities of farming on lowland peat. This workshop provided an update on the work Fenland SOIL has been carrying out over the last two years, as well as an opportunity to discuss the importance of a collaborative approach to data collection and knowledge sharing.

LEARNINGS
When it comes to our focus on Respect for the Planet, in 2023 we continued to evolve our approach in understanding and addressing the climate impact of our portfolio. We also recruited a Planet Lead, who officially started in Q1 2024. As part of this progress, we identified a number of learnings and will be taking the following actions in 2024:

- Nature is a key stewardship focus for the Church Commissioners across a range of asset classes. However, the lack of an overarching nature strategy has resulted in a more ad-hoc approach, with many different teams working on the issue at a grassroots level. To maximise our impact in this area, our Planet Lead will develop a nature strategy in 2024.
- 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.


Brownhills Forest and South Kyle Wind Farm

RESPECT FOR PEOPLE

Respect for human rights is the starting point for companies to help address social inequalities via their impacts on workers, consumers and broader society.

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 and nature loss.

When compared to the global recognition of the dangers of climate change with broadly adopted targets, reporting frameworks and investor collaborations (e.g., net zero by 2050; TCFD; CA100+), efforts related to addressing social inequality are far less advanced. Considering this as a key part of our strategy, we began exploring how best to advance the inequality-as-system-risk agenda via our stewardship efforts across ESG integration, engagement, voting, and advocacy.

HUMAN RIGHTS

Underpinning our approach to social inequality is the expectation, as set out in our Human Rights Policy, that human rights are respected in our investments. 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.

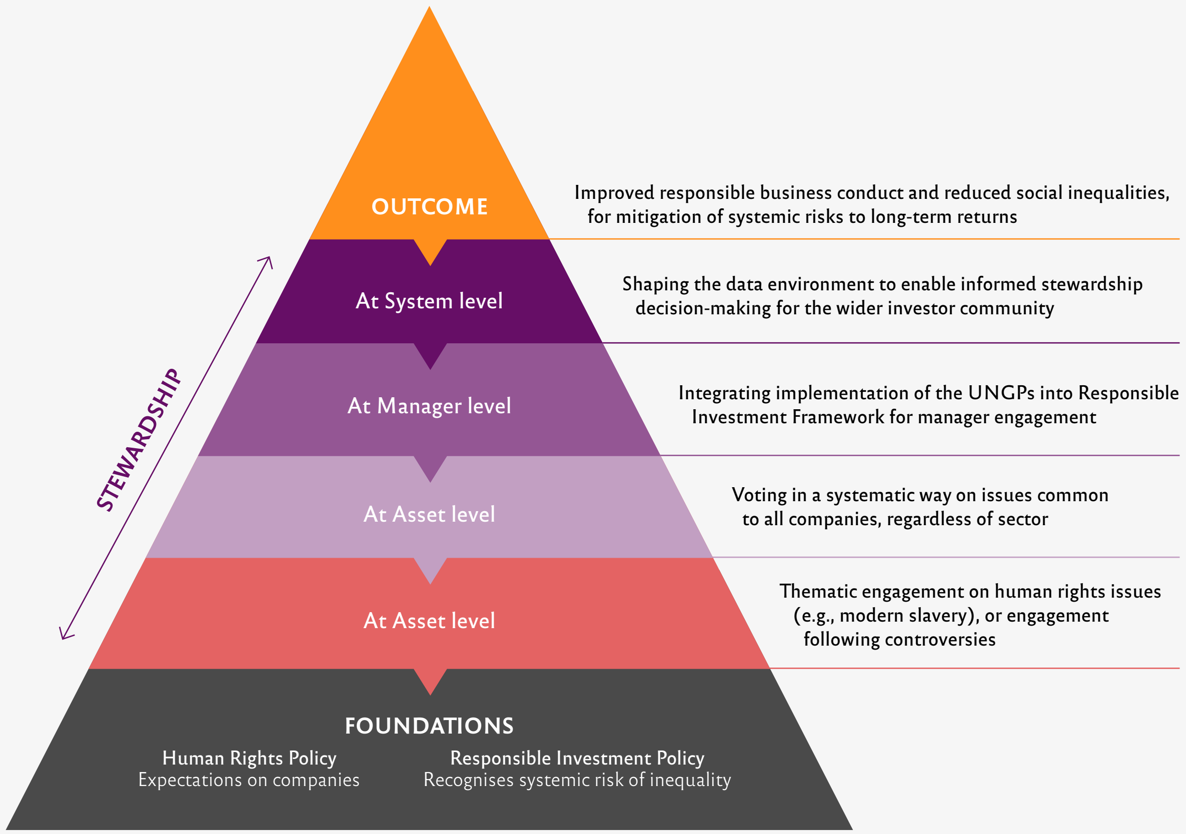
The Taskforce on Inequality and Social-related Financial Disclosures (TISFD)

The Church Commissioners was the first asset-owner ally of the nascent TIFD. In 2023, it was announced that the separate initiatives of the TIFD and TSFD would be consolidated into a single entity, the TISFD. The TISFD is a global initiative that will develop a global framework and recommendations that enable companies and investors to identify, assess, and report on their inequality and social-related risks, opportunities, and impacts. To do this, the TISFD will synthesise and build on existing standards, while strengthening and addressing gaps in disclosure metrics and indicators. It will also align with existing international standards, including the UN Guiding Principles on Business and Human Rights, OECD MNE Guidelines and the ILO MNE Declaration. Some key deliverables of the project include the creation of a global framework for inequality and social-related disclosures, evidence of the system-level risks that companies and investors are exposed to as a result of extreme inequality, further guidance and recommendations, as well as education and capacity building for a broad range of stakeholders.

The Church Commissioners expect investee companies and commercial tenants to respect human rights and we also recognise the systemic risk that social inequality poses to society. Building on this foundation, the Church Commissioners implement stewardship activities at the asset, manager, and system level, to improve responsible business conduct, reduce social inequalities, and mitigate systemic risks to long-term returns. This model is set out in the diagram below.

The Church Commissioners' efforts on human rights cuts across multiple themes including decarbonisation, renewable energy, responsible technology, Diversity, Equity and Inclusion, modern slavery, and artificial intelligence. In 2023, we wanted to turn our expectations of investee companies into a systematic stewardship approach that went beyond engagement, and so embarked on a human rights voting pilot. This reflected our public position that company approaches to human rights risk and impact management are financially material issues for all companies.

HUMAN RIGHTS STEWARDSHIP IN SUPPORT OF HIGH LEVEL OUTCOMES



SOCIAL INEQUALITY
continued

The Church Commissioners' Human Rights Policy expects all companies to document and demonstrate respect for human rights by establishing clear policy commitments, conducting human rights due diligence (HRDD) and providing remedy for impacts when they occur. In light of these expectations, we developed a voting approach that assessed companies on specific criteria and then voted against management where companies failed to meet these expectations.

CASE STUDY: Affordable housing (Horton Farm, Epsom)

In January 2023, we successfully achieved a draft housing allocation by the Local Planning Authority that would deliver up to 1,500 much-needed homes, addressing a significant housing shortage in Epsom and Ewell. The draft policy would require the delivery of 40% affordable housing (600 homes), with all residential development within the site to be carbon net zero. In addition, the site is required to accommodate serviced Gypsy and Traveller pitches along with substantial new public open space and environmental enhancement. As well as the policy requirements, we are also undertaking a review of social value opportunities, whereby the masterplan proposals can respond directly to identified local needs. This will include looking to engage directly with local community groups and organisations.

Outcome

The Church Commissioners voted against the re-election of relevant directors, chairs, or other management resolutions, where companies failed to demonstrate both a commitment to respect human rights and an approach to identifying and addressing human rights risks and impacts. In 2023, we withheld support or voted against 100 companies, including 96 named directors. After informing the companies, we have held multiple meetings with company management to discuss these topics in further detail.

Outcome

A group of 15 investors, with almost $6 trillion in assets under management, contacted over 25 ESG data providers and proxy-advisors, setting out our long-term needs as users of human rights data. We subsequently concentrated on a subset of the key players in the industry, for a continued multi-year engagement. This project was formally launched as the Investor Initiative on Human Rights Data (II-HRD) in 2024. Further information can be found in the report: Integrating Human Rights into Responsible Investment: A Systematic Approach to Address Systemic Risks.

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 and we integrate considerations of modern slavery into our Controversies Process for listed equity. We also 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, and our RI team provides internal subject matter expertise to our Private Equity and Real Assets teams.

Human rights as a material issue

The International Financial Reporting Standards (IFRS) has explained that sustainable value creation depends on a company's ability to access adequate relationships and resources over time, with sustainability-related risks and opportunities being driven by a company's dependencies and impacts on those resources and relationships. HRDD provides the best framework for identifying, assessing and acting on human rights risks and impacts across the whole value chain. It is critical for understanding a company's relationships, dependencies and impacts on social and human capital and the sustainability-related risks and opportunities and should therefore be a part of any materiality process.

A holistic approach to HRDD that covers employees, workers in the value chain, communities and consumers/end users is crucial, as human rights risks and impacts can occur in all these areas. These human rights issues can become financially material over different time frames. With the expansion of mandatory HRDD legislation, the failure to demonstrate adequate HRDD may also be a financially material compliance failure. For us, company approaches to human rights risk and impact management is a financially material issue for all companies. While some companies may have greater human rights risks than others, we see the fundamentals of HRDD as a universal issue.

As such, we have a clear need for consistent, comparable, and global data on HRDD and would welcome disclosure standards that support our investment and stewardship decision-making. Unfortunately, the depth and breadth of data on company approaches to respecting human rights is not good enough to integrate our voting intentions into a policy that is implementable by a proxy voting service. To rectify this and, potentially more importantly, to enable other investors to take similar systematic stewardship action, the Church Commissioners, along with Aviva Investors and Scottish Widows, convened and led a collaborative investor initiative on human rights data.

SOCIAL INEQUALITY
continued

Outcome
The Rathbones-led Votes Against Slavery campaign targeted 29 companies that were assessed to have failed to comply with Section 54 of the UK Modern Slavery Act 2015. All companies were contacted, with follow-up meetings conducted with 19 of the 29. By year end, 27 of 29 companies were compliant (or had confirmed that a statement was not required and committed to making this clearer in future reporting) and plans were put in place for the remaining two companies. In 2024, the target list will expand to include FTSE AIM companies. While for some companies this might only entail an administrative action, we believe in keeping this issue on the board agenda, with the potential for this pressure to cascade down into the relevant supply chains of major UK companies.

Outcome
We organised a series of webinars for our farmland managing agent staff to equip them with additional skills and knowledge for managing site visits and relationships with tenants. This included modern slavery awareness training conducted by Shayne Tyler, from Practical Ethics Ltd, who has first-hand experience of finding and addressing forced labour in the UK, and who brought the topic to life for the 20+ agents in attendance.

Outcome
In 2023, there was a significant tendering process to set up multi-year contracts for core estate management services. This provided the opportunity to integrate expanded modern slavery due diligence requirements into the estate management contracts. The RI team supported the proposal review process and from 2024 the contracts will include clauses that require managing agents to conduct, in liaison with the Church Commissioners, appropriate modern slavery due diligence of the portfolio to identify and mitigate risks, and to support the resolution of cases if identified. These activities will fall under a new Farmland Social Action Plan.

JUST TRANSITION
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.

Previously we had prioritised engagement with key demand-side high-emitting companies (e.g., energy utility companies) on an individual basis to raise awareness of the just transition. Having taken learnings from this strategy, we adopted a more collaborative approach. In 2023, a cornerstone of our engagement on the just transition was through PRI Advance, the $30tn stewardship initiative focused on human rights and social issues. We see respect for human rights as underpinning company approaches to a 'just' transition and by collaborating with other PRI members, we saw the opportunity to have significant impact on two critical industries for the transition: mining and power generation.

Outcome
The Church Commissioners are the PRI engagement lead for RWE, a large electric utility based in Germany. Having previously emphasised the importance of community consultation with the company, the PRI investor group were pleased to see RWE publish their Community Engagement Policy in December 2023.


Olga Hancock, Sustainable Investment Forum Europe 2024

Furthermore, we continued our involvement in the Financing a Just Transition Alliance (FJTA) which was convened by the Grantham Research Institute for the purpose of identifying the role that finance can play in connecting action on climate change with inclusive development pathways. The FJTA will explore new ways of working in 2024, following the establishment of a Just Transition Finance Lab, intended to be a world-leading centre for experimentation and excellence in the financial solutions needed for a just transition to a net zero and nature-positive economy.

Outcome
In 2023, the Transition Plan Taskforce finalised their Disclosure Framework, which – through the efforts of the just transition Working Group – has included the Just Transition into the UK's 'gold standard' disclosure framework for transition plans.

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; and integration of DE&I into our RI Manager Framework that supports manager due diligence, expectation setting and progress monitoring for our investment managers.

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

CASE STUDY: Addressing the gender pay gap
In developing the Church Commissioners' first allocation and impact report for the Sustainability Bond in 2023, we engaged with several of our private equity and infrastructure managers to assess their (and the underlying investment activities') eligibility for inclusion. During this process, we identified gaps in the approaches of four managers to one of the criteria in the Church Commissioners' proprietary RI Manager Framework – monitoring of the gender pay gap. Following these conversations, all four managers provided further information along with commitments to improve their performance including by collecting additional data, conducting more frequent salary reviews that incorporate diversity considerations, and benchmarking themselves against sector peers.

CASE STUDY: Engaging with the Corporate Racial Equity Alliance
Founded by PolicyLink, FSG, and JUST Capital, the Corporate Racial Equity Alliance (CRE Alliance) is a committee of organisations dedicated to supporting US businesses in advancing equity and inclusion, combating discrimination, and embodying the best of socially responsible business. Together with a broad ecosystem of partners, the CRE Alliance is engaged in a multi-year effort to develop groundbreaking new business standards that aim to establish a common language and clear roadmap for businesses to set performance targets, measure progress, and achieve lasting results in tackling inequality and advancing shared prosperity. Stakeholder engagement is central to their development efforts, and the Church Commissioners are proud to have participated as expert advisors over the course of 2023, providing targeted input and feedback on the content of the draft standards as they were being developed.

SOCIAL INEQUALITY
continued

RESPONSIBLE TECHNOLOGY

A responsible approach to technology, from 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 to undertake human rights due diligence.

We have been working on this topic with a variety of actors, including the EIAG, to produce ethical guidance concerning artificial intelligence, which will be published in 2024. This guidance will support the Church Commissioners and wider Christian investors when considering issues relating to artificial intelligence (AI), investment and stewardship. We also continued in our lead, co-lead and supporting investor roles in the World Benchmarking Alliance (WBA)'s collaborative impact coalition on ethical AI which has been tracking the progress of 200 key technology companies through the WBA's Digital Inclusion Benchmark. Furthermore, we have maintained our active involvement in the tech and human rights initiative led by the Swedish Council on Ethics, which is engaging with the companies in our Big Tech policy (including Alphabet, Amazon, Apple, Meta and Microsoft). This includes multi-year collaborative engagements with companies like Meta and both their human rights and AI teams.

Outcome

In 2023, the WBA coalition focused on engaging with companies to advance their transparency and commitments to ethical AI. Overall, the coalition has seen success, with the number of tech firms making public AI commitments increasing from 16% to 26% since its inception in 2022. Furthermore, after a series of discussions, the tech company in which the Church Commissioners is the lead investor, agreed to publish its AI Ethics principles. We will continue to engage with the company on the issue of integrating and formalising their approach to human rights, which will extend into 2024.

Outcome

In 2023, we co-filed a shareholder resolution against a tech company, relating to the effectiveness of their approach to preventing online sexual exploitation and abuse of children. After discussions with the company, where they agreed to both increase disclosures and to facilitate engagement at the board level, the resolution was withdrawn. This resolution came after several rounds of unsatisfactory engagement, but the escalation led to a successful outcome.

LEARNINGS

When it comes to our focus on Respect for People, in 2023 we undertook a series of engagements with data providers seeking to improve the quality and availability of corporate human rights data. We also continued our collaborative engagements with companies on just transition and human rights as part of the PRI Advance workstream. As part of this progress, we identified a number of learnings and will be taking the following actions in 2024:

- When seeking to improve the quality and availability of corporate human rights data we realised that for some topics – such as setting principles around norms breaches – we need to also engage with wider stakeholders such as civil society, in a more structured format. As such, in 2024 we formalised the collaborative engagement as the Investor Initiative on Human Rights Data (II-HRD) with a new governance structure, Terms of Reference and sign-on opportunity for members.
- In identifying future collaborative engagements, we will seek to lead on those where we have deep subject matter expertise on the relevant issue, to maximise our impact and additionality.

HOW WE RUN OUR ACTIVITIES

Our aim is for everyone in the Church Commissioners to feel that they belong and are valued for who they are and what they contribute.

EMPLOYEES

The NCIs' values are at the heart of everything we do. Our values and generous behaviours are: Strive for Excellence, Show Compassion, Respect Others, Collaborate, and Act with Integrity.

These were rolled out across the NCIs in 2023 and are embedded in all our activities. Along with our fellow NCIs, we are an accredited living wage employer and ensure that all our staff receive 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.

In addition to our values and generous behaviours, we also place strong emphasis on the theme of belonging and inclusion, 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 2023, 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 belonging and inclusion initiatives carried out in 2023 include:

- **Employee welfare:** We continued the development of diversity data gathering to collect personal data on religion or belief, sexual orientation, gender identity and socioeconomic background. We are aware that research suggests that socioeconomic background is a key determinant of individuals' health and economic prospects, regardless of other characteristics. We want to improve our understanding of our employee demographics to better respond to their needs.

- **Induction training:** In 2023, we relaunched our Induction programme to welcome new employees in person. As part of a four-week Induction Programme, we run a one-day interactive session to introduce employees to NCIs' purpose, values and generous behaviours, belonging and inclusion, network groups and wellbeing which runs alongside our 'Inclusions Foundations Course' for new joiners which ensures that our values and commitment to inclusivity are clear to our employees when they join.

EMPLOYEES
continued

- **Employee development:** We launched the 'Confident Career Programme'; a six-week programme designed to support employees in more junior roles to develop the confidence, skills, and self-belief to progress to the next stage of their career. This programme is an investment intended to help address under representation of UKME colleagues in senior roles. At the pilot stage of the programme one cohort was open to all applicants and one cohort was for UKME applicants only. This was to create safe spaces for UKME colleagues who would value this. A member of the Investments team successfully completed this programme.

- **Manager training:** We created a 'Confident Manager Programme' which includes support for managers on how to create a culture in a team that lives out the NCI values and builds a culture of belonging whilst appreciating difference.

- **Senior leaders:** In 2023, we launched a developmental 360 feedback tool for senior leaders which enables them to obtain feedback on their performance in line with our values from direct reports, colleagues, and peers outside their team. As part of this process, leaders are debriefed on the 360 results in a coaching session to develop an action plan based on the insights from the process. We also launched the Confident Leader residential programme, run with Windsor Leadership, to equip senior leaders to meet uncertainty, fear, and isolation with courage, resilience, and strategic insight. Two members of Investments Leadership team completed this course in 2023.

- **Employee networks:** We continue to support several employee groups such as the LGBT+ Staff Network, the Disability and Neurodiversity 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 2023, we again participated in the #10,000 Black Interns scheme, welcoming another intern into the organisation, and were able to subsequently offer them a one-year contract with us on completion of their studies.

NCIs' Summer Garden Party, Lambeth Palace

- **Mentoring:** In 2023, we continued to run our reciprocal mentoring programme 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. Senior leaders and managers were invited to participate as mentors. Mentors will receive training from 3D Coaching on Effective Conversations. The scheme started in September 2023 and will run to September 2024.

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.

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, Investment Management Certificate (IMC) and Royal Institution of Chartered Surveyors (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 2024.

To fulfil our 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. Further details of our remuneration practices can be found in our Annual Report.

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 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 (and advising of the minimum hourly rate paid for staff both in London and elsewhere). This includes asking if they have zero-hour contracts in place and, if so, the rationale for having them.

2. Whether they have implemented processes to identify the companies/businesses exposed to the main climate change and 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).

Church Commissioners visit to South Durham Estate

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, whether they have a policy in place and if so, how often they monitor progress against this.

6. In the context of adherence with anti-slavery and human trafficking legislation, we ask vendors to confirm that they have read our Modern Slavery Policy and Statement and that:

- they understand we adopt a zero-tolerance approach to modern slavery,
- that we require suppliers to report cases of suspected modern slavery or human trafficking to the Church Commissioners, and
- that we may take appropriate action (including termination of the supplier's appointment) in the event of a breach of this policy by the supplier or failure to improve their processes.

For relevant companies (i.e., those with a global turnover of £36 million or more who are required to publish a slavery and human trafficking statement annually) we also ask them:

- whether they have a modern slavery statement and policy in place,
- to describe their process to identify and manage risks of modern slavery in their operations and supply chains,
- whether they have had any incidents of modern slavery within the last three years, explaining action taken to address the situation, and
- to explain the process for informing us of any modern slavery or labour abuse incidents.

SUPPLIERS
continued

The Church Commissioners has more than 450 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 ESG questions 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 NCIs' 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. Staff are now also required to complete a 'Declaration of Interest' form at the outset of any formal tender process confirming that they either have no conflicts in place, or if they do, identifying what these are. This ensures that staff with any conflicts that could be deemed to impede their judgement are not included in decision-making processes regarding the appointment of suppliers they may be conflicted over.

CASE STUDY: Raising suppliers' DE&I standards

During 2023, we undertook a tender process to establish a Masterplanning & Architect panel for the Investment team. We required all firms to provide responses to CSR questions within the tender documentation (including questions on DE&I). Each firm's response was reviewed and scored, with those firms with the highest overall scores across the tender being invited to present. Following the presentations by each firm, further questions were asked about their proposals including their approach to DE&I. Both their panel diversity and responses to questions raised were considered prior to the final decision being made regarding which firms to appoint.

Firm A
Clearly outlined its commitment to DE&I in its written tender response which was supported by the team that they brought in to present. Given their refreshing approach both to DE&I and design the decision was made to retain them as an approved firm so that they could be invited to participate in design competitions.

Firm B
Their tender responses to DE&I were felt to be weak and further questions were raised during the presentation, specifically regarding gender pay gap and gender balance. The firm provided additional clarification the next working day as they felt that their responses to the questions, although adequate, were not as robust as they should have been. This included a commitment (despite the company not being legally required to report) to urgently obtain and publish gender pay gap figures which could be shared with us. There was clear acknowledgement that their response in the initial submission and presentation was disappointing, and they were keen to ensure they would not be in a similar position in future. Given their openness in acknowledging the additional work required in this area and their commitment to address this, the firm was appointed to the panel.

Church House, Westminster

CASE STUDY: Using our leverage

During 2023, we undertook a tender process for the provision of consultancy services to support our sustainability initiatives in Responsible Investment. As part of the due diligence review process during supplier selection, we review any negative publicity surrounding the companies.

Firm C
During the review process it was identified that one of the firms was a member of an oil and gas trade association posing a reputational risk to the Church Commissioners. This was escalated to the business team undertaking the tender process and a constructive call was held with the company. The company highlighted that they had commenced the process of reviewing their membership with this association and acknowledged the difficult position their membership might put the Church Commissioners in. We flagged our preference for the firm not to renew its membership and although the company did not commit to discontinuing their membership, further discussions have taken place where they acknowledged that the Church Commissioners raising this directly has had a significant impact on their internal deliberations.

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. 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.

Church Commissioners Board members, February 2024

ASSETS COMMITTEE

On behalf of the Board, the Assets Committee is responsible for the 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 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 least twice per annum.

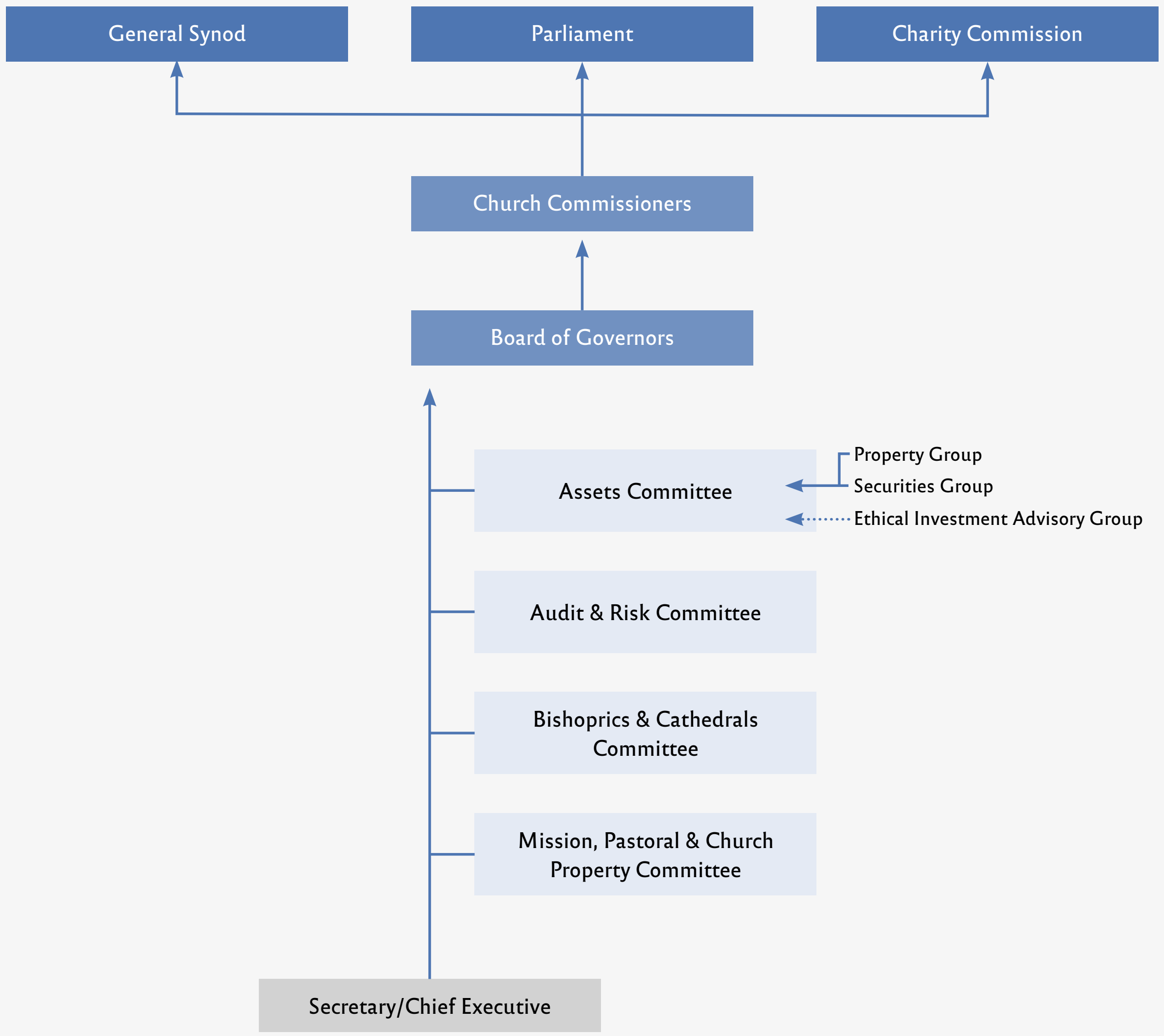
AUDIT & RISK COMMITTEE

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 the 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 bi-annually. As noted above, the Board is supported by the Audit & Risk Committee, which reviews the content of the strategic risk register on a bi-annual basis and seeks assurance over the adequacy of arrangements in place to manage the key risks. In 2023, 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 bi-annually with department heads to review their risks, mitigations, and current actions. Risks are evaluated and prioritised using a scoring methodology guidance approved by the Audit & Risk Committee.

The Church Commissioners' risk management process has been enhanced through the use 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. The Risk and Assurance team are in the process of updating the pan-NCI Risk Management Policy and accompanying guidance documentation.

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 five 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.

INTERNAL AUDIT

In line with the Charities Act 2011 and in compliance with the Institute of Internal Auditors' Global Internal Audit Standards (GIAS) an annual 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 line with the GIAS.

In the summer of 2021, 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 NCIs' Risk & Assurance Department regularly conducts audits which include coverage of the Responsible Investment (RI) and stewardship activities,

GOVERNANCE STRUCTURE
continued

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 2023 assurance audits of Tactical Asset Allocation, Third-Party Suppliers (non-manager) Controls and Hedging/Foreign Exchange were conducted.

The risk-based 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 Risk & Assurance 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 Sustainability Bond.

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 as a part of a broader review of its code of conduct, taking into account the need to most effectively manage any actual or potential conflicts of interest and loyalty.

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. As part of the process of revising the code of conduct, the Church Commissioners has sought independent recommendations and assurance from an independent auditor, the findings of which it expects to be available in Q3 2024 and which it will take into account. These recommendations will have in view conflicts which may impair decisions by both trustees and officers. The Commissioners also considers that a revised code of conduct should sit alongside additional policies to mitigate the risk of market abuse and new personal account dealing, and is in the process of obtaining advice from a compliance consultancy. We anticipate that the amended code of conduct incorporating a reviewed conflicts of interest policy will be approved during 2024 or the first quarter of 2025.

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.

The Church Commissioners continually keep the risk of conflicts under review, particular in areas of their operations where the risk may be greatest. Late in 2023, the Church Commissioners made improvements to the internal governance of the investment function, with the Chief Operating Officer reporting to the CEO rather than the CIO in order better to avoid the risk of conflict, and to ensure proper segregation such that valuations and assessments in connection with portfolio performance are independent of those responsible for taking investment decisions. Further, at the start of 2024, the Church Commissioners introduced an improved programme of training for trustees with clear guidance on the management of conflicts of interest and loyalty.

THE CHURCH COMMISSIONERS AND BOARD OF GOVERNORS 2023

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 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 Stephen Trott

ELECTED BY THE HOUSE OF LAITY

Canon Peter Bruinvels
Jay Greene
Canon Elizabeth (Betty) Renshaw MBE
Jacob Vince

ELECTED BY THE DEANS

The Very Revd Mark Bonney, Dean of Ely
The Very Revd Rogers Govender, Dean of Manchester (from 1 May 2022)

NOMINATED BY THE CROWN OR THE ARCHBISHOPS

Jenny Buck
Remi Olu-Pitan
Suzanne Avery
Morag Ellis KC
Kif Hancock
Busola Sodeinde
Helen Steers
Nigel Timmins
Mark Woolley (to 30 March 2023)
Dame Kate Barker (from 1 April 2023)

FRC STEWARDSHIP CODE 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.	• First Church Estates Commissioner letter (4) • Who we are and what we believe (6-10) • Our beneficiaries (6) • Stakeholders (7) • A responsible, ethical investor (9) • People and Planet: a systemic risk lens (9) • Introduction to our approach (12) • Our responsible investment policy (13-15) • Responsible stewardship of real assets (14)	• The Church Commissioners is a charitable body established in 1948. Its strategic focus is to support the Church of England's mission and ministry, particularly in areas of need and opportunity, in perpetuity. • 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 our investments consistently make positive contributions aligned with the common good. • We regularly source expert external opinion for areas of new development and new investment strategies. This external opinion complements the due diligence, research, and risk assessment undertaken internally. • 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.
Principle 2 Signatories' governance, resources and incentives support stewardship.	• Introduction to our approach (12) • Expanding our engagement reach (20) • Ethical exclusions (22) • Controversies process (22) • Voting (24-25) • Training and performance management rewards (43) • Suppliers (44) • Governance structure (46-48) • The Board of Governors, its committees and responsibilities (46) • Assets Committee (46) • Audit & Risk Committee (46) • Church Commissioners: governance structure (47) • Managing risk (47) • Internal audit (47)	• 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, disinvestment, and property management is aligned with our responsible investing values and approach. • Current RI team members bring varied and complementary professional experience, from various areas, including responsible investing, consulting, environmental law, human rights, and shareholder engagement. • On behalf of the Board, the Assets Committee is responsible for the governance of the endowment fund, operating within general rules set by the Board.

FRC STEWARDSHIP CODE REFERENCE TABLE
continued

PRINCIPLES	SECTIONS (pp.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 3 Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	- Externally managed assets (18) - Employees (42) - Managing trustees' conflicts of interest (48)	- When our ethical restrictions and stewardship policies conflict with those of our managers, we seek to work with them to develop a satisfactory resolution. - 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.
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 (9) - Our responsible investment policy (13-15) - Listed equity engagement (19) - Policy engagement (23) - Collaborative efforts (23) - Public policy engagement on climate (32) - Engagement with listed companies and policy makers (33) - Supporting nature and biodiversity on farmland (34) - Social inequality (37-40) - Just transition (39) - Responsible technology (40)	- Climate change, nature degradation and social inequality represent three key systemic risks whose effects are already being seen across the planet and societies. These interconnected systemic risks provide a lens through which to focus and guide our Responsible Investment activities when building on the pillars of Respect for People and Respect for the Planet. - 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. We see opportunities to encourage corporate and regulatory/policy action that tackles these multiple systemic challenges and unlocks significant opportunities for sustainable value creation and social development. - We see policy engagement as a new frontier in investor stewardship, addressing material issues which can't be addressed on a company-by-company basis, and that require broader policy reform. As a result, we engage with policymakers, politicians and members of parliament on specific issues either through collaborative initiatives or with assistance from the NCIs' Parliamentary team. - We work as part of collaborative initiatives with other stakeholders, such as investors, experts and non-governmental organisations (NGOs), to influence policymakers 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.

FRC STEWARDSHIP CODE REFERENCE TABLE
continued

PRINCIPLES	SECTIONS (pp.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 5 Signatories review their policies, assure their processes and assess the effectiveness of their activities.	- Who we are and what we believe (6-10) - A responsible, ethical investor (9) - Introduction to our approach (12) - Our responsible investment policy (13-15) - A net zero world, not just a net zero portfolio (29) - Human rights (37) - Assets Committee (46) - Managing risk (47) - Internal audit (47)	- The Church Commissioners' stewardship reporting has been reviewed by a number of senior-level staff (including the CEO), assessed by an external consultant 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 2023, 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. - The Church Commissioners' risk management process has been enhanced through the use 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 NCIs' Risk & Assurance Department regularly conducts audits which include coverage of the Responsible Investment (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.
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 (5) - Who we are and what we believe (6-10) - Our beneficiaries (6) - Stakeholders (7) - Research into historic links to African chattel enslavement (8) - Breakdown of assets under management (10) - Our responsible investment policy (13-15) - Externally managed assets (18) - Listed equity engagement (19)	- 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 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. - Our approach is shaped by advice from the Church of England Ethical Investment Advisory Group (EIAG), whose role is to provide practical and timely ethical investment advice, enabling the Church Commissioners to invest in a way that is Christian and distinctly Anglican, reflecting the views of our beneficiaries and key stakeholders. - In February 2023, the First Church Estates Commissioner participated in a fringe event at Synod, presenting our approach to climate change to Synod members. After receiving positive feedback on the content, we produced a short video on how we invest for a net zero world, a report for Synod concluding the five years of engagement and exclusion, a Climate Action Plan, and a report on our approach to sustainability in real assets.

FRC STEWARDSHIP CODE REFERENCE TABLE
continued

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 (12) • Our responsible investment policy (13-15) • Responsible stewardship of real assets (14) • ESG integration (18) • Internally managed assets (18) • Externally managed assets (18) • Expanding our engagement reach (20) • Ethical exclusions (22) • Controversies process (22) • Supporting nature and biodiversity on farmland (34) • Suppliers (44)	• We incorporate ESG considerations into all asset classes, including internally managed assets like our real estate. With regards to real estate, 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 exclusions policies. We do this by considering material environmental and social issues as part of our due diligence process, and employing property managers after a tender process that includes ESG considerations such as health and safety, fire safety, disability non-discrimination, environmental and sustainability policies, modern slavery, quality standards, equal opportunities and data protection. • Most 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. Therefore, the choice of asset manager is important to ensure alignment and coherence with our responsible investment approach. • We assess our current and prospective asset managers across all asset classes against our proprietary RI Manager Framework. Asset managers must meet our minimum expectations in each category to qualify as investable. Where a manager fails to meet our minimum expectations, before deciding not to invest, we will engage with them to seek improvements. • Regarding investment mandates, we seek to reflect ESG commitments in agreements with our fund managers. This could include expectations to engage with investee companies on ESG issues when appropriate and to report on how specific ESG risks and opportunities have been integrated into investment decisions and active ownership activities. We also take steps to ensure that our fund managers exclude from the mandate investments that are identified to be in breach of the Church Commissioners' Responsible and Ethical Investment Policy. • In 2023, our in-house team carried out 489 direct engagements with 417 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. • Following a competitive tender process, the Church Commissioners selected Morningstar-Sustainalytics as the next ethical and controversy screening provider. Because we contracted an additional data provider in 2023, our screened universe was significantly larger than in 2022. We also expanded the scope of our climate restrictions.
Principle 8 Signatories monitor and hold to account managers and/or service providers.	• ESG integration (18) • Externally managed assets (18) • Expanding our engagement reach (20) • Ethical exclusions (22) • Controversies process (22) • Voting (24-25) • Human rights (37) • Suppliers (44)	• We also take steps to ensure that our fund managers exclude from the mandate investments that are identified to be in breach of the Church Commissioners' Responsible and Ethical Investment Policy. 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 2023, we continued with 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. • We utilise ISS as our proxy voting and corporate research service provider. Where application of our voting policy is not clear, the RI team reviews ISS's voting recommendation and makes a determination on the vote with consideration to our ethical investing policies. • A small proportion of our shares are on loan. We follow the International Corporate Governance Network's (ICGN) Code of Best Practice and aim to recall all stocks ahead of companies' meetings. We receive daily reports from our custodian allowing us to monitor share recalls ahead of the record dates. Our commitment to vote on all our shares is also reiterated in our RI Policy.

FRC STEWARDSHIP CODE REFERENCE TABLE
continued

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 (19) - Expanding our engagement reach (20) - Controversies process (22) - Voting (24-25) - Climate engagement (31) - Engagement with listed companies and policymakers (33) - Modern slavery (38) - Just transition (39) - Diversity, equity and inclusion (39) - Responsible technology (40)	- 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 loss, and social inequality) and human rights. - In 2023, our in-house team carried out 489 direct engagements with 417 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. - In 2023, we continued with 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. - After a three-year engagement with an extractives company, we disinvested in 2023. We initially raised concerns with the company regarding their respect for the right to Free, Prior and Informed Consent (FPIC), their failure to implement the Voluntary Principles on Security and Human Rights and their failure to fully assess, mitigate and remedy impacts on water and human health. - The Church Commissioners voted against the re-election of relevant directors, chairs, or other management resolutions, where companies failed to demonstrate both a commitment to respect human rights and an approach to identifying and addressing human rights risks and impacts. - The Church Commissioners are the PRI engagement lead for RWE, a large electric utility based in Germany. - In 2023, we co-filed a shareholder resolution against a tech company, relating to the effectiveness of their approach to preventing online sexual exploitation and abuse of children.
Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers.	- Listed equity engagement (19) - Expanding our engagement reach (20) - Controversies process (22) - Voting (24-25) - Climate engagement (31) - Engagement with listed companies and policymakers (33) - Human rights (37) - Modern slavery (38) - Just transition (39) - Diversity, equity and inclusion (39) - Responsible technology (40)	- We work as part of collaborative initiatives with other stakeholders, such as investors, experts and non-governmental organisations (NGOs), to influence policymakers 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. - In 2023, we supported eight resolutions at four Big Tech companies that related to the impact of their products and services on society. - The Church Commissioners co-led the Policy track at the NZAOA, which published a paper on the economic case for net zero during New York Climate week and the UN General Assembly. - In 2023, the Church Commissioners led FSDA engagements with two large supermarkets and two consumer goods companies, and supported engagements with another five companies. - The Church Commissioners is Co-Chair of the IPDD initiative, sits on the management committee, and created and lead the Indonesia workstream. In 2023, we engaged with key stakeholders in Indonesia, including both the Jakarta Stock Exchange (IDX) and Kadin (Chamber of Commerce) – both of which we have signed MOUs with – and key Ministry at COP28 to discuss encouraging sustainable finance to protect and enhance forest cover. - The Church Commissioners was a founding member of NA100 and is a member of the NA100 Launching Investor Group. - A group of 15 investors, including the Church Commissioners, with almost $6 trillion in assets under management, contacted over 25 ESG data providers and proxy-advisors, setting out our long-term needs as users of human rights data.

FRC STEWARDSHIP CODE REFERENCE TABLE
continued

PRINCIPLES	SECTIONS (pp.)	SUMMARY OF OUR APPROACH TO THE UK STEWARDSHIP CODE PRINCIPLES
Principle 11 Signatories, where necessary, escalate stewardship activities to influence issuers.	• Listed equity engagement (19) • Expanding our engagement reach (20) • Controversies process (22) • Voting (24-25) • Climate engagement (31) • Engagement with listed companies and policymakers (33) • Human rights (37) • Just transition (39)	• Most 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. Therefore, the choice of asset manager is important to ensure alignment and coherence with our responsible investment approach. • We assess our current and prospective asset managers across all asset classes against our proprietary RI Manager Framework. Asset managers must meet our minimum expectations in each category to qualify as investable. Where a manager fails to meet our minimum expectations, before deciding not to invest, we will engage with them to seek improvements. • Regarding investment mandates, we seek to reflect ESG commitments in agreements with our fund managers. This could include expectations to engage with investee companies on ESG issues when appropriate and to report on how specific ESG risks and opportunities have been integrated into investment decisions and active ownership activities. • 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. This includes adapting our engagement approach in ways that are sensitive to the business cultures that different companies operate in.
Principle 12 Signatories actively exercise their rights and responsibilities.	• Our responsible investment policy (13-15) • Responsible stewardship of real assets (14) • ESG integration (18) • Externally managed assets (18) • Credit (18) • Listed equity engagement (19) • Voting (24-25) • Summary of voting policy (26-27) • Climate engagement (31) • Engagement with listed companies and policymakers (33)	• In exercising our voting rights, we build on the Church Investors Group (CIG) voting guidelines. The CIG voting guidelines set out an approach to voting on issues including executive pay, governance, diversity, modern slavery, audit, climate change policy, tax, and employee pay. • We utilise ISS as our proxy voting and corporate research service provider. Following review, we observed deviations from our voting policy of less than 0.2% of total votes cast in 2023. • A small proportion of our shares are on loan. We follow the International Corporate Governance Network's (ICGN) Code of Best Practice and aim to recall all stocks ahead of companies' meetings. We receive daily reports from our custodian allowing us to monitor share recalls ahead of the record dates. Our commitment to vote on all our shares is also reiterated in our RI Policy. • In pooled fund mandates our external asset managers retain the voting rights for shares in the portfolio. We encourage managers to vote on all shares and to have a presumption to vote in favour of resolutions that further environmental and social goals.

PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) REFERENCE TABLE

PRINCIPLES	SECTIONS (pp.)	
Principle 1 We will incorporate ESG issues into investment analysis and decision-making processes.	Our responsible investment policy (13-15) ESG integration (18) Internally managed assets (18)	Externally managed assets (18) Training and performance management rewards (43)
Principle 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.	ESG integration (18) Externally managed assets (18) Listed equity engagement (19) Expanding our engagement reach (20) Policy engagement (23)	Voting (24-25) Responsible technology (40) Climate (29-32) Nature (33-35) Social inequality (37-40)
Principle 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Listed equity engagement (19) Expanding our engagement reach (20)	Voting (24-25) Summary of voting policy (26-27)
Principle 4 We will promote acceptance and implementation of the Principles within the investment industry.	Externally managed assets (18) Ethical exclusions (22) Policy engagement (23) Climate (29-32)	Public policy engagement on climate (32) Social inequality (37-40) Human rights (37)
Principle 5 We will work together to enhance our effectiveness in implementing the Principles.	Our responsible investment policy (13-15) Collaborative efforts (23) Engaging on conflict (23)	Climate (29-32) Nature (33-35) Social inequality (37-40)
Principle 6 We will each report on our activities and progress towards implementing the Principles.	Our beneficiaries (6) Stakeholders (7) ESG integration (18)	Voting (24-25) Policy engagement (23) Climate (29-32)

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 Ethical Investment Advisory Group provides timely and practical advice to the three National Investing Bodies (NIBs) to enable them to invest in a way that is distinctly Christian and Anglican.

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 Church of England 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.

LP – limited 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 which generally affects the poorest countries.

Manager – fund/investment manager.

NCIs – National Church Institutions.

Net-Zero Asset Owner Alliance (AOA) – 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 separate legal entities:

- The Church Commissioners for England manage an investment portfolio to support the work and mission of the Church of England 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 Church of England 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 Church of England. It also holds some charitable funds for other purposes.

Paris Agreement – is an international treaty on climate change agreed in 2015 and covering climate change mitigation, adaptation, and finance.

SFF – Sustainable Financing Framework.

Synod – the General Synod is the national assembly of the Church of England. It came into being in 1970 under the Synodical Government Measure 1969, replacing an earlier body known as the Church Assembly.