

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green, Social & Sustainability Bonds Selection Criteria

The Church Commissioners for England

22 June 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Green, Social and Sustainability Bonds
Relevant standards	<ul style="list-style-type: none">• ICMA Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines
Scope of verification	<ul style="list-style-type: none">• The Church Commissioners for England Sustainable Financing Framework (as of 06.06.2022)• The Church Commissioners for England Selection Criteria (as of 06.06.2022)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as the Church Commissioners' Sustainable Financing Framework remains unchanged

CONTENTS

Scope of work	3
ISS ESG ASSESSMENT SUMMARY	4
ISS ESG SPO ASSESSMENT	5
PART I: GREEN, SOCIAL AND SUSTAINABILITY BONDS' LINK TO THE CHURCH COMMISSIONERS' SUSTAINABILITY STRATEGY	5
A. ASSESSMENT OF THE CHURCH COMMISSIONERS' ESG PERFORMANCE	5
B. CONSISTENCY OF GREEN, SOCIAL AND SUSTAINABILITY BONDS WITH THE CHURCH COMMISSIONERS' SUSTAINABILITY STRATEGY.....	7
PART II: ALIGNMENT WITH ICMA GREEN BOND STANDARDS, SOCIAL BOND STANDARDS AND SUSTAINABILITY BONDS GUIDELINES	10
PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE	19
B. CONTRIBUTION OF THE GREEN/SOCIAL/SUSTAINABILITY BONDS TO THE UN SDGs	19
C. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA.....	21
ANNEX 1: Methodology	24
ANNEX 2: Quality management processes	25
ANNEX 3: FROM THE CHURCH COMMISSIONERS' SUSTAINABLE FINANCING FRAMEWORK	26
About ISS ESG SPO	27

Scope of work

The Church Commissioners for England (the “Church Commissioners” or the “Issuer”) commissioned ISS ESG to assist with its Green/Social/Sustainability Bonds by assessing three core elements to determine the sustainability quality of the instrument:

1. Green/Social/Sustainability Bonds’ link to the Church Commissioners’ sustainability strategy – drawing on the Church Commissioners’ overall sustainability profile and issuance-specific Use of Proceeds categories.
2. The Church Commissioners’ Sustainable Financing Framework (June 2022 version) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs), Social Bond Principles (SBPs) and Sustainability Bond Guidelines (SBGs)
3. The Selection Criteria – whether the projects contribute positively to the Sustainable Development Goals (SDGs) endorsed by the United Nations and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 1).

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Green, Social and Sustainability Bonds' link to Issuer's sustainability strategy	ISS ESG finds that the Use of Proceeds financed through this bond are consistent with the Issuer's sustainability strategy and material ESG topics for the Issuer's industry. The rationale for issuing Green/Social/Sustainability Bonds is clearly described by the Issuer.	Consistent with Issuer's sustainability strategy
Part 2: Alignment with GBPs, SBPs and SBGs	The Issuer has defined a formal concept for its Sustainable Financing Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green Bond Standards, Social Bond Standards and Sustainability Bond Guidelines	Aligned
Part 3: Sustainability quality of the Selection Criteria	<p>The overall sustainability quality of the Selection Criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green/Social/Sustainability Bonds will (re-)finance eligible green and social asset categories. Green asset categories include renewable energy, green buildings, pollution prevention and control, sustainable land use, wastewater management and clean transportation. The social asset categories include healthcare, education, affordable and social housing, employment generation and socio-economic empowerment</p> <p>Those use of proceeds categories have a significant contribution to SDG 1 'No poverty', SDG 3 'Health and Well Being', SDG 4 'Quality Education', SDG 7 'Affordable and clean energy', SDG 11 'Sustainable cities', SDG 12 'Responsible consumption and production' and SDG 13 'Climate Action'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	Positive

¹ ISS ESG's evaluation is based on the Church Commissioners for England Sustainable Financing Framework (June 2022 version), on the analysed Selection Criteria as received on the 06.06.2021, and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 07.08.2021).

ISS ESG SPO ASSESSMENT

PART I: GREEN, SOCIAL AND SUSTAINABILITY BONDS' LINK TO THE CHURCH COMMISSIONERS' SUSTAINABILITY STRATEGY

A. ASSESSMENT OF THE CHURCH COMMISSIONERS' ESG PERFORMANCE²

Methodological note: *Please note that the Church Commissioners is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the Asset Management and Brokerage sector based on publicly available information exclusively. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.*

Industry classification: Asset Management & Brokerage³

Key Issues of the industry

1. Sustainable investment criteria
2. Social and environmental impacts of products and services
3. Employee relations and work environment
4. Business ethics

Indicative ESG risk and performance assessment

The Church Commissioners is a registered charity in the United Kingdom that manages the Church of England's endowment fund and contributes to mission projects, dioceses, bishops, cathedrals, and pensions. As of 31 December 2021, the fund had assets under management of GBP 10.1 billion. The Church Commissioners holds a diversified portfolio of investments across a broad range of asset classes (e.g., equities, real assets and alternatives).

The organization is a member of a number of responsible investment bodies, and most notably has been a signatory of the UN-backed Principles for Responsible Investment since 2010, and therefore is committed to incorporating ESG aspects into its investment activities and decisions. Additionally, the Church Commissioners is a member of the UN-convened Net Zero Asset Owner Alliance, having adopted a target for their portfolio to be net-zero carbon emissions by 2050.

The Church Commissioners has established clear responsibilities in the form of its dedicated Responsible Investment (RI) team and has set up an RI manager rating system that specifies minimum standards for its investment decisions. The rating system sets guidelines that cover various positive criteria (e.g., on climate change, ESG integration and sustainability-related corporate governance).

The Church Commissioners' ethical policies and approach to RI are shaped through the recommendation of the Ethical Investment Advisory Group of the Church of England. The organization's approach includes a set of clearly defined exclusion criteria. These exclude investments in companies involved in indiscriminate weaponry, conventional weaponry, non-military firearms,

² The Indicative ESG risks and performance assessment remains unvaried from August 2021

³ As per ISS ESG classification

pornography, tobacco, alcohol, gambling, high interest lending, extraction of thermal coal and production of oil from oil sands. The exclusions are subject to revenue thresholds, which differ per theme.

The Church Commissioners engages with investee companies across three primary pillars: Respect for the Planet, Respect for People, and Corporate Governance. Core themes include climate change, pollution and biodiversity and human capital management such as diversity, executive remuneration and labor practices, conduct and culture, and pollution and waste management.

Staff-related risks are mitigated to some extent by the high labor standards applicable in the United Kingdom. The Church Commissioners also follows the policies set by the Church of England on non-discrimination and promotion of equality. With regard to responsible employee relations, the organization offers a high degree of workplace flexibility through flexible working schedules and telecommuting options. Several flexible working arrangements such as part-time working and job sharing are also implemented. Its approach to dependent care is not publicly available.

As one of the National Church Institutions (NCIs), the Church Commissioners follows its compliance regulations policy. The said policy comprehensively addresses the topics of corruption, conflicts of interest, insider dealings, gifts and hospitality, and money laundering. NCIs have also established a policy in handling complaints. Employees can report grievances through an anonymous and confidential whistleblowing channel. Further compliance-related measures such as training, risk assessments, and third-party anti-corruption due diligence are also in place.

Indicative product portfolio assessment⁴

- **Social impact of the product portfolio**

The Church Commissioners has identified GBP 437 million of investments (as of 31 December 2020) across different social themes (e.g. health and nutrition, affordable and social housing, education, inclusive finance, and gender equality), thereby addressing certain global social challenges. This constitutes approximately 4.8% of its total investment fund. Based on ISS's methodology, the remainder of the portfolio is not invested into social themes and therefore has no significant net impact.

- **Environmental impact of the product portfolio**

GBP 630 million of the Church Commissioners' investments (as of 31 December 2020) address environmental solutions (e.g., investments in companies and projects focused on producing renewable energy and energy efficiency). This constitutes around 6.5% of its investment total assets under management. Based on ISS's methodology, the remainder of the portfolio is not invested into environmental solutions and therefore has no significant net impact.

Controversy Assessment

Company Screening

As of August 2021, the analyst in charge of producing this report conducted a high-level controversy assessment, based on publicly available information exclusively. There is no indication of the Church Commissioners being involved in any of the below mentioned controversies.

⁴ The Indicative product portfolio assessment remains unvaried from August 2021

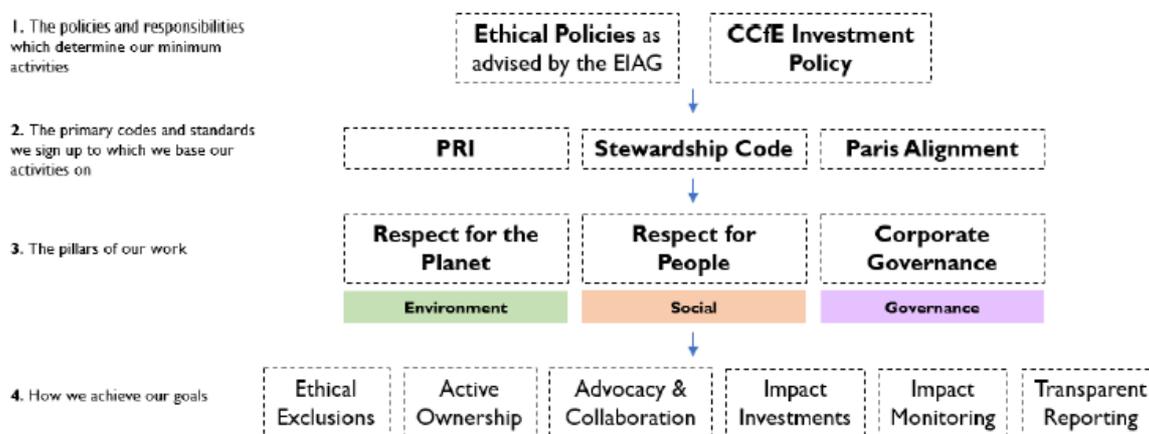
Industry Risks

Based on a review of controversies in the two-year period (2019 – 2021), the greatest risk reported against companies operating in the Asset Management & Brokerage industry relate to activities that may have adverse impacts on the environment and business malpractice. This is closely followed by activities related to human rights. The top three issues that have been reported against companies within the industry are as follows: alleged failure to mitigate climate change impacts, failure to prevent money laundering and failure to assess environmental impacts. This is closely followed by alleged failure to respect consumers' rights, failure to prevent bribery and failure to conduct human rights due diligence.

B. CONSISTENCY OF GREEN, SOCIAL AND SUSTAINABILITY BONDS WITH THE CHURCH COMMISSIONERS’ SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

The Church Commissioners’ ambition is to be at the forefront, globally, of responsible investment (“RI”). In 2020, the Church Commissioners launched the “Challenge 2030”. This includes the Issuer’s commitment to have a net zero portfolio by 2050, increasing its allocation to ‘win-win’ impact investment solutions and improving its ability to measure and manage the real-world impacts of its portfolio with the goal of increasing the net positive impact of the portfolio.



Note: EIAG: The Ethical Investment Advisory Group which supports the Church Commissioners efforts to invest in a way that is distinctly Christian
CCfE: Church Commissioners for England

Figure 1: Church Commissioners' Sustainability Strategy

The Church Commissioners expects its asset managers to report regularly in line with the asset manager Responsible Investing (RI) reporting requirements and it is transparent about its own RI activities and performance. The Church Commissioners reports in detail to the codes and standards it signs up to annually for the PRI (Principles of Responsible Investment) and UK Stewardship Code, and at least every five years regarding its portfolio’s progress and commitment to Paris Alignment with regard to net zero greenhouse gas emissions by 2050.

The Church Commissioners discloses in its Annual Report and/or on the Church Commissioners – delete ‘of England’ or change to ‘for England’] website sufficient information for stakeholders to understand⁵⁶:

- Selection and monitoring of external asset managers
- The ESG characteristics of listed equity portfolio compared to the wider market, including its carbon footprint
- Voting activity, including its voting on UK executive remuneration
- Engagement activities and those of its managers, including engagement successes
- The extent to which the portfolio includes investments with strong sustainability characteristics
- Portfolio’s approach to climate change risk, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures
- The organization’s work on RI
- Future potential RI activities.

Rationale for issuance

The Sustainable Financing Framework forms the basis for future Bond issuance by the Church Commissioners and contributes toward the ESG strategy set by the organization. The Church Commissioners’ “Challenge 2030” program, in addition to managing environmental, social and governance (ESG) risks and opportunities, aims to invest in accordance with Anglican ethics, and be at the forefront of responsible investment in the marketplace.

As signatories of the UN-backed Principles for Responsible Investment (‘PRI’) and acknowledging its fiduciary duties, the Church Commissioners has adopted the PRI’s definition of impact investment, which is, investing in *‘companies and organizations that generate revenues (based on market rate returns) from products, services, technology and infrastructure that deliver solutions (or positive impacts) to society and the environment.’*

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Sustainable Financing Framework with the sustainability objectives defined by the Issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Asset Management and Brokerage sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g., climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

⁵<https://www.churchofengland.org/about/leadership-and-governance/church-commissioners-england/how-we-are-governed/publications>

⁶ <https://www.churchofengland.org/about/leadership-and-governance/ethical-investment-advisory-group/policies-and-reviews>

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Renewable Energy	✓	✓	Contribution to a material objective
Clean Transportation	✓	✓	Contribution to a material objective
Sustainable management of land use and living natural resources	✓	✓	Contribution to a material objective
Sustainable Water and Wastewater Management	✓	✓	Contribution to a material objective
Pollution prevention and Control	✓	✓	Contribution to a material objective
Energy Efficiency	✓	✓	Contribution to a material objective
Green Buildings	✓	✓	Contribution to a material objective
Climate Change Adaptation	✓	✓	Contribution to a material objective
Socio-economic empowerment and advancement	✓	✓	Contribution to a material objective
Healthcare	✓	✓	Contribution to a material objective
Access to education	✓	✓	Contribution to a material objective
Affordable Housing	✓	✓	Contribution to a material objective
Employment generation	✓	✓	Contribution to a material objective

Opinion: ISS ESG finds that the Use of Proceeds financed through the Green/Social/Sustainability bonds are consistent with the Issuer's sustainability strategy and material ESG topics for the Issuer's industry. The rationale for issuing Green/Social/Sustainability Bonds is clearly described by the Issuer.

PART II: ALIGNMENT WITH ICMA GREEN BOND STANDARDS, SOCIAL BOND STANDARDS AND SUSTAINABILITY BONDS GUIDELINES

1. Use of Proceeds

An amount equal to the net proceeds of Green, Social or Sustainability Bonds will be used to finance and/or re-finance new and/or existing “Eligible Sustainable Investments”, defined as:

- **Eligible Green Activities**, including themes such as renewable energy, clean transportation, sustainable land use, sustainable water and wastewater management, pollution prevention and control, energy efficiency, green buildings and climate change adaptation
- **Eligible Social Activities**, including themes such as access to essential services (specifically, education and healthcare) and affordable housing and employment generation.

These assets will primarily be invested through:

- **“Eligible Investment Managers”**, investment funds managed by an external asset manager, which are focused on investing in Green/Sustainable Assets and provide measurable environmental and/or social impacts.

The Church Commissioners may choose to extend the categories of Eligible Sustainable Investments in the future. Any such changes will be documented in an updated Sustainable Financing Framework and published accordingly on the Church Commissioners' website. Such changes will not apply to any financing previously raised based on existing versions of the Sustainable Financing Framework.

Table 1: Eligible Green Project Categories

ELIGIBLE PROJECT CATEGORY	EXAMPLE ELIGIBLE GREEN PROJECTS
Renewable Energy	<p>Investments in equipment, development, manufacturing, construction, operation, distribution and maintenance relating to energy sources with direct emissions < 100g CO2e/kWh in line with the EU Taxonomy technical screening criteria for electricity generation, such as:</p> <ul style="list-style-type: none"> ▪ Onshore and offshore wind energy ▪ Solar energy ▪ Geothermal energy ▪ Small Hydropower⁷ ▪ Green hydrogen⁸: Hydrogen fuel production by electrolysis

⁷ Direct emissions threshold of <100g CO2e/kWh or power density > 5W/m2

⁸ In line with the EU Taxonomy technical screening criteria of manufacture of hydrogen and hydrogen-based synthetic fuels with a life-cycle emissions savings requirement of 73.4% for hydrogen and 70% for hydrogen-based synthetic fuels relative to a fossil fuel comparator of 94g CO2e/MJ

Clean Transportation	Investments in the acquisition, development, manufacturing, and installation of infrastructure to support zero emission vehicles, such as: <ul style="list-style-type: none"> ▪ Electric vehicle charging stations
Sustainable Land Use and Management of Natural Living Resources	Investments in the: <ul style="list-style-type: none"> ▪ Acquisition, maintenance, and sustainable management of forests certified under the Forest Stewardship Council (FSC® 1), the Sustainable Forestry Initiative (SFI), the Programme for the Endorsement of Forest Certification (PEFC), or a similar standard ▪ Acquisition, development, construction, installation, and maintenance of sustainable biomass fuel
Sustainable Water and Wastewater Management	Investments in water and wastewater treatment infrastructure and facilities, such as: <ul style="list-style-type: none"> ▪ Pipework ▪ Infrastructure to support distribution efficiency ▪ Water conservation such as leakage detection and repair equipment ▪ Smart meters ▪ Other efficiency enabling infrastructure, equipment, apparatus and products
Pollution Prevention and Control	Investments in the acquisition, development, and infrastructure to support the reduction in greenhouse gas emissions, such as: <ul style="list-style-type: none"> ▪ Waste recycling (plastics) ▪ Waste-to-energy plants ▪ Anaerobic digestion facilities
Energy Efficiency	Investments in the acquisition, development and manufacturing of solutions resulting in the reduction of energy use, such as: <ul style="list-style-type: none"> ▪ Energy storage (e.g., batteries) ▪ Smart meters
Green Buildings	Acquisition or construction of commercial or residential properties that have been certified as: <ul style="list-style-type: none"> ▪ Building Research Establishment Environmental Assessment Method (BREEAM): Outstanding, Excellent or Very Good; ▪ Leadership in Energy and Environmental Design (LEED): Platinum or Gold; ▪ Energy Performance Certificate (EPC): B rating or above (certification applicable specifically to UK assets);

	<ul style="list-style-type: none"> Other equivalent internationally and/or nationally recognized certifications. <p>Refurbishments to buildings that aim to improve the energy efficiency performance of the building, and which achieve:</p> <ul style="list-style-type: none"> At least 30% improvement in energy efficiency Improvement to EPC B rating or above
Climate Change Adaptation	<p>Investments in infrastructure and technologies such as:</p> <ul style="list-style-type: none"> Information support systems (e.g., climate observation and early warning systems) and pure play consultancies

Table 2: Eligible Social Project categories

ELIGIBLE PROJECT CATEGORY	ELIGIBLE SOCIAL PROJECTS	TARGET POPULATION
Access to Essential Services (Education)	<p>Investment in the provision of essential educational services, such as:</p> <ul style="list-style-type: none"> Job training skills and upskilling services Financial inclusion Early-stage education 	<ul style="list-style-type: none"> All populations
Access to Essential Services (Healthcare)	<p>Investments in pharmaceutical and healthcare companies contributing to progress in prevention, diagnosis, therapies and monitoring of diseases, and enabling the life science industry to develop sustainable, cost-effective therapies more rapidly</p>	<ul style="list-style-type: none"> All populations
Affordable Housing	<p>Acquisition or construction of residential housing to provide adequate, safe and affordable housing, such as:</p> <ul style="list-style-type: none"> Socially supported housing⁹ 	<ul style="list-style-type: none"> Persons living below the poverty line, excluded and/or marginalised populations and/or communities

⁹ based on supported living situations where the government grants financial assistance to tenants with long term health conditions

	<ul style="list-style-type: none"> Below-market rent housing¹⁰ 	
Employment Generation	Investments in companies which are focused on employment generation and programmes designed to prevent and/or alleviate unemployment stemming from socio-economic crises, including support of SME financing and microfinance	<ul style="list-style-type: none"> Unemployed SMEs based in regions with high unemployment rates SMEs impacted by the consequences of extreme events (e.g. pandemic, natural disaster)
Socio-economic Advancement and Empowerment	Investments in companies which provide training, support and educational services to facilitate: <ul style="list-style-type: none"> Equitable access to and control over assets, services, resources and opportunities Equitable participation and integration into the market and society, including reduction of income inequality 	<ul style="list-style-type: none"> Undereducated Unemployed Excluded and/or marginalised populations and communities

Eligible Investment Managers

The Church Commissioners assesses and works closely with all its managers to ensure that they adopt good ESG integration and stewardship practices for the assets they manage on the Church Commissioners’ behalf. This is done across all invested asset classes: listed equity, private equity, hedge funds, private and public debt and venture capital strategies.

Every investment manager must complete the Church Commissioners’ proprietary Responsible Investment Due Diligence Questionnaire and reach the minimum standards for responsible investment. The Church Commissioners assesses all managers across the following 7 pillars, scoring them on a 0-4 scale (1 being the minimum standard, 4 being best):

1. Responsible investment policy and governance arrangements
2. Integration of ESG factors into the investment process
3. Active ownership efforts of underlying investments

¹⁰ provision of rented accommodation to people which is sub-market level

4. Their approach to climate change
5. Their reporting of responsible investment issues
6. Assurance of their responsible investment practices
7. Their internal diversity and inclusion practices and composition

Once the Church Commissioners partners with a manager, it engages with them on their responsible investment practices and expects them to develop this over time. The Church Commissioners reserves the right to remove a manager if they fall below its minimum standards for responsible investment, or if they do not progress their practices in the manner expected.

Specifically for investment managers eligible for the use of proceeds of the Green/Social/Sustainability bond, the Church Commissioners will require these managers to either rate or be on course (within the next 12 months) to rate as a '3' or '4': i.e. managers that are judged to be a 'Strong' or 'Outstanding' practitioner in responsible investment and considerably better than their peers.

Furthermore, it is required that the eligible managers be classified as an 'impact investment' manager through the Church Commissioners' proprietary impact investment framework. Using this, the Issuer assesses potentially eligible managers against the Impact Management Project (IMP)'s 5 dimensions of impact. These are outlined in figure 2.

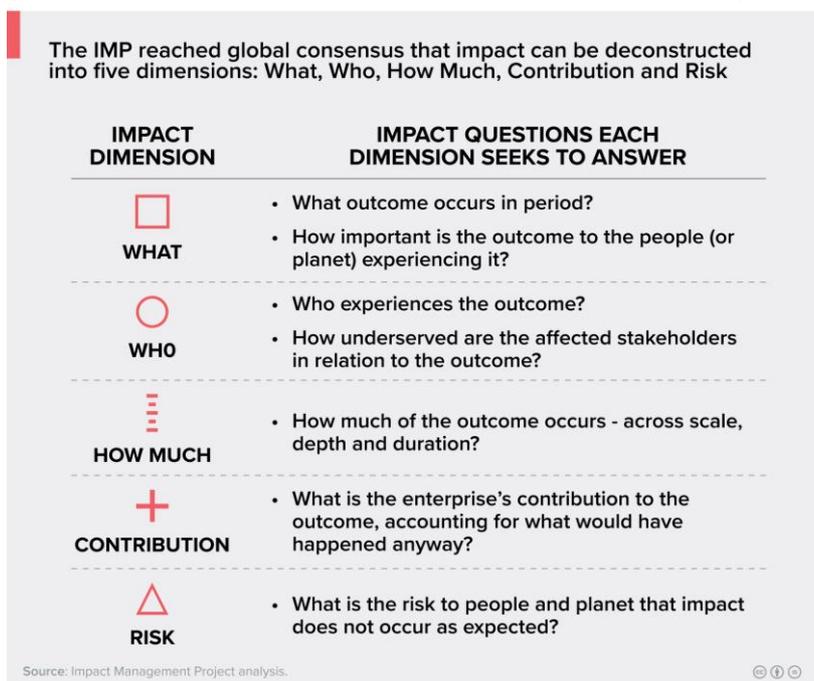


Figure 2: Impact Management Project 5 dimensions of impact

The Church Commissioners will provide an assessment of the manager's investment focus based on the IMP's 5 dimensions of impact and the Church Commissioners' internal impact investment framework and determine whether a manager can be classified as an eligible investment for the use of bond proceeds.

In the case of funds managed by other asset managers, eligible funds will need to demonstrate they follow substantially the same or more demanding ESG investment criteria and exclusion policies. Should the Church Commissioners choose to allocate Green/Social/Sustainability Bond proceeds to such funds managed by eligible third-party asset managers, the relevant Responsible Investment (RI) processes will be detailed in the Green/Social/Sustainability Bond report.

In relation to the principle of 'Do No Significant Harm' (DNSH), investments made via external eligible fund managers will consider principal adverse impacts on the climate and the environment as well as on governance, social and employee matters.

A specific process has been implemented with regards to ESG incidents and potential principal adverse impacts under the Sustainable Financing Framework:

1. All managers are contractually obligated to report a breach of the Church Commissioners' ethical restrictions as advised by the Ethical Investment Advisory Group ("EIAG"), or any major negative ESG events which could have a material reputational damage
2. A controversies process has been established to identify significant environmental, social or governance controversies within the Church Commissioners' portfolio, which is run frequently. When identified, the team then engages quickly.
3. As part of the DNSH criteria for eligible investment managers for the Green/Social/Sustainability Bond, the Church Commissioners has established a process to identify alignment of DNSH criteria at the manager level and will engage with specific managers on particular areas of DNSH criteria where applicable.
4. If an eligible investment manager breaches the Church Commissioners' ethical restrictions or DNSH criteria are not adhered to, and neither (or both) of these actions are sufficiently remedied in a timely fashion, then the Church Commissioners will (1) remove the applicable investments from being eligible for the Use of Proceeds, and (2) if particularly egregious, has the right to terminate the partnership with the manager.

Exclusionary Criteria

As an ethical and responsible investor, the Church Commissioners excludes companies in a number of different sectors from its investments. Their approach to ethical exclusions is based on the advice provided by the EIAG¹¹.

The Church Commissioners excludes from their direct investments companies 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. Elsewhere in the portfolio, the Church Commissioners excludes companies from direct investments based on a revenue threshold¹².

As part of its engagement escalation strategy, the Church Commissioners may opt to exclude or disinvest from companies which have shown poor responsiveness to its engagements. On a rare and select basis, the Church Commissioners will also immediately exclude or disinvest from companies flagged to be involved in egregious controversies. Regardless of the grounds of exclusions, the Church Commissioners periodically undertakes a review of the restricted companies and assesses their investment eligibility.

Additionally, the Church Commissioners engages carbon intensive companies based on climate change restriction criteria and excludes those that, even after engagement, fail to meet the Church Commissioners' standards. This evaluation is made based on the assessment of companies from the Transition Pathway Initiative¹³ (TPI), a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI is an independent initiative housed within the Grantham Research Institute on Climate Change and the Environment, as part of the London School of Economics and Political Science.

¹¹ https://www.churchofengland.org/sites/default/files/2018-08/Engagement%20Brochure_%20final_17%20May.pdf

¹² <https://www.churchofengland.org/about/leadership-and-governance/ethical-investment-advisory-group/policies-and-reviews>

¹³ <https://www.transitionpathwayinitiative.org/>

The Church Commissioners' approach to indirect investments is shaped by its pooled funds policy that sets parameters for use of pooled funds and a cap on indirect exposure to restricted investments.

Opinion: *ISS ESG considers the Use of Proceeds description provided by the Church Commissioners' Sustainable Financing Framework as aligned with the ICMA Green Bond Standards and Social Bond Standards. The funds will flow through only to the projects that qualify for the eligible investment categories, specified in the Sustainable Financing Framework. As such, the Church Commissioners will ensure that the Use of Proceeds will align with the ICMA GBP/SBP Standards and Sustainability Bonds Guidelines, and will be invested through Eligible Investment Managers, who may not specifically pursue environmental objectives, but are filtered through a comprehensive ESG risk and opportunities analysis.*

2. Process for Project Evaluation and Selection

The Church Commissioners will establish a Sustainable Financing Committee (the "Committee") to oversee the project evaluation and selection process and ensure selected projects comply with the eligibility criteria defined in the Use of Proceeds section and with the Church Commissioners' Responsible Investment Policy.

The Committee will be chaired by the Chief Investment Officer and furthermore composed of representatives from the Church Commissioners' Investment, Finance and Responsible Investment teams and will meet at least twice per year. The Committee will be responsible for:

- Evaluating the compliance of proposed projects based on the eligibility criteria defined in the Use of Proceeds throughout the life of the Bond(s);
- Monitoring and ensuring that the portfolio of Eligible Green or Social Activities is aligned with the categories and eligibility criteria throughout the life of the Bond(s);
- Removing from the portfolio of projects any that no longer meet the eligibility criteria, and replacing them with new projects as soon as feasible;
- Reviewing and validating the annual reporting for investors and external verification.

Opinion: *ISS ESG considers the Process for Project Evaluation and Selection description provided by the Church Commissioners' Sustainable Financing Framework as aligned with the ICMA Green Bond Standards, Social Bond Standards and Sustainability Bonds Guidelines. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.*

3. Management of Proceeds

The Church Commissioners will establish a register of Eligible Green and Eligible Social Activities and the Operations team will track allocations matched to any Green / Social / Sustainability Bond proceeds.

An amount equivalent to the proceeds of a Green / Social / Sustainability Bond issued under the Framework will be allocated to Eligible Sustainable Investments:

- That have already been disbursed, with a lookback period of no more than 2 years from the date of a Green / Social / Sustainability Bond issue; or
- That have not yet been disbursed at the date of the Green / Social / Sustainability Bond issue, it being provided that the Church Commissioners will endeavor on a best efforts basis to allocate all the net proceeds from any Green / Social / Sustainability Bond that may be issued in the future within 3 years of the issuance.

Pending full allocation of an amount equivalent to the net proceeds of the Green / Social / Sustainability Bond to the Eligible Green and/or Social Activities, the net proceeds will be invested on a temporary basis in accordance with the relevant internal treasury policies, in cash, cash equivalents or similar instruments.

Should any Eligible Sustainable Investments already allocated cease to meet the eligibility criteria, the Church Commissioners will remove such investment from the allocated amount and replace it with new Eligible Sustainable Investment(s).

Opinion: *ISS ESG finds that the Management of Proceeds proposed by the Church Commissioners' Sustainable Financing Framework is well aligned with the ICMA Green Bond Standards, Social Bond Standards and Sustainability Bonds Guidelines*

4. Reporting

Within one year from issuance of any Green / Social / Sustainability Bond and annually until full allocation, and in the case of material developments, the Church Commissioners will prepare and make readily available information on the allocation of net proceeds to the Eligible Green and/or Social Activities and associated impact metrics. The information will be made available on the Church Commissioners' website and/or within other published written material.

Allocation Reporting

To the extent practicable, the Issuer will provide information such as:

- The total amount of proceeds allocated;
- The share of financing vs refinancing;
- The allocation to each eligible category; and
- The balance of unallocated proceeds.

Impact Reporting

The impact report will provide, to the extent feasible, and subject to the nature of Eligible Sustainable Investments, confidentiality and regulatory constraints, as well as availability of information, relevant environmental and/or social impact metrics to support the allocation report. The table in Annex 1 summarizes examples of impact indicators that could be disclosed.

In addition, the Church Commissioners may provide qualitative descriptions of the outcomes and impacts of selected eligible projects funded. Where relevant, information will be provided on the impact assessment and data reporting methodologies applied by the Church Commissioners, and the impact metrics will be reviewed by an external party prior to publication.

Opinion: *ISS ESG finds that the reporting proposed by the Church Commissioners' Sustainable Financing Framework is aligned with the ICMA Green Bond Standards, Social Bond Standards and Sustainability Bonds Guidelines. The detailed disclosure of impact reporting metrics and indicators represents best practice.*

External review

An independent external party will verify the internal tracking method and allocation of funds, confirming that an amount equivalent to the net proceeds of the Green / Social / Sustainability Bond(s) have been allocated in compliance with all material respects of the eligibility criteria set forth in the Sustainable Financing Framework.

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

B. CONTRIBUTION OF THE GREEN/SOCIAL/SUSTAINABILITY BONDS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green/Social/Sustainability Bonds Selection Criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Church Commissioners' Green/Social/Sustainability Bonds to the Sustainable Development Goals (SDGs) defined by the United Nations.

This assessment is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
--------------------------------	----------------------------	----------------------	-----------------------------	---------------------------------

Each of the Green/Social/Sustainability Bonds' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

Alignment with Green and Social Project Categories

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Renewable Energy (<i>Wind, Solar, Geothermal, Small Hydro¹⁴ and Green Hydrogen¹⁵</i>)	Significant contribution	 
Clean Transportation (<i>Charging Infrastructure</i>)	Limited contribution	 
Sustainable Land Use and Management of Natural Living resources	Limited contribution	
Sustainable Water and Wastewater management (<i>Pipework Infrastructure to support distribution efficiency Water conservation such as leakage detection and repair equipment Other efficiency enabling infrastructure, equipment, apparatus and products</i>)	Significant contribution	
Sustainable Water and Wastewater management (<i>Smart Meters</i>)	No Net Impact	

¹⁴ Direct emissions threshold of <100g CO₂e/kWh or the electricity generation facility is a run-of-river plant and does not have an artificial reservoir or power density > 5W/m², per the EU Taxonomy technical screening criteria

¹⁵ In line with the EU Taxonomy technical screening criteria of manufacture of hydrogen and hydrogen-based synthetic fuels with a life-cycle emissions savings requirement of 73.4% for hydrogen and 70% for hydrogen-based synthetic fuels relative to a fossil fuel comparator of 94g CO₂e/MJ

Waste Recycling ¹⁶	Significant contribution	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Pollution Prevention and Control (Waste to Energy plants) ¹⁷	No Net Impact	
Energy Efficiency (Energy Storage e.g., Batteries)	Significant contribution	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
Green Buildings (Acquisition and Construction of BREEAM and LEED certified buildings)	Significant contribution	11 SUSTAINABLE CITIES AND COMMUNITIES
Green Buildings (Refurbishments of buildings to EPC rating B or above)	Limited contribution	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
Access to Essential Services (Education)	Significant contribution	4 QUALITY EDUCATION
Access to Essential Services (Healthcare: Products)	Significant contribution	3 GOOD HEALTH AND WELL-BEING
Access to Essential Services (Healthcare: Other services)	Limited contribution	3 GOOD HEALTH AND WELL-BEING
Affordable Housing	Significant contribution	11 SUSTAINABLE CITIES AND COMMUNITIES 1 NO POVERTY 10 REDUCED INEQUALITIES
Employment Generation	Significant contribution	8 DECENT WORK AND ECONOMIC GROWTH 1 NO POVERTY
Socio-economic Advancement and Empowerment	Limited contribution	10 REDUCED INEQUALITIES

¹⁶ Energy provision from unspecified waste-incineration has no net impact as per ISS's SDGA methodology

¹⁷ Energy provision from unspecified waste-incineration has no net impact as per ISS's SDGA methodology

C. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA¹⁸

The table below presents the findings of an ISS ESG assessment of the Selection Criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Biodiversity

- ✓ ~95% of the assets are covered under Directive 2014/52/EU of the European Parliament¹⁹, UK Town & Country Planning (Environmental Impact Assessment) Regulations 2017²⁰ and US National Environmental Policy Act²¹

Dialogue with local communities

- ✓ ~95% of the assets are covered under Directive 2014/52/EU of the European Parliament²², UK Town & Country Planning (Environmental Impact Assessment) Regulations 2017²³ and US National Environmental Policy Act²⁴

Labor Health and Safety

- ✓ ~95% of the assets are covered by relevant legislations such as the EU Labour Law²⁵, UK Employment Rights Act²⁶ and US Department of Labor Legislation²⁷

Users Safety

- ✓ ~95% of assets are Covered by relevant legislations such as EU GDPR²⁸, UK Data Protection Act²⁹, and US Privacy Act of 1974³⁰
- ✓ All managing agents are contractually required to meet, maintain and report all statutory health and safety requirements either monthly or quarterly. The entire process is presented annually to the Church Commissioners' trustees for review.
- ✓ With its indirect investments made through investment managers, the Church Commissioners contractually requires managers to meet and maintain all statutory requirements regarding user safety.

¹⁸ The section on the 'Management of Environmental and Social Risks associated with the Selection Criteria' was left unvaried since the last iteration as of September 2021.

¹⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0052&from=EN>

²⁰ <https://www.gov.uk/guidance/environmental-impact-assessment>

²¹ <https://ceq.doe.gov/laws-regulations/regulations.html>

²² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0052&from=EN>

²³ <https://www.gov.uk/guidance/environmental-impact-assessment>

²⁴ <https://ceq.doe.gov/laws-regulations/regulations.html>

²⁵ <https://ec.europa.eu/social/main.jsp?catId=706&langId=en&intPagelId=205>

²⁶ <https://www.legislation.gov.uk/ukpga/1996/18/contents>

²⁷ <https://www.dol.gov/general/aboutdol/majorlaws>

²⁸ <https://gdpr-info.eu/>

²⁹ <https://www.gov.uk/data-protection>

³⁰ <https://www.justice.gov/opcl/privacy-act-1974>

Waste Management and Pollution Prevention

- The existence of an environmental management system (e.g., ISO 14001) is not sufficiently ensured by the Church Commissioners during the pre-investment and monitoring phases.

Climate Change Mitigation

- ✓ The Church Commissioners assesses new direct property investments against the Property Investments Policy³¹, checking the property uses and tenants for breaches of the ethical investment exclusions. Cases of doubt or uncertain interpretation are discussed with the Head of Responsible Investment to ensure adherence to the Church Commissioners' ethical policies and may be referred to the trustees.
- ✓ 100% of real estate investments are covered under relevant legislation on minimum EPC requirements and minimum energy efficiency standards.
- ✓ Material environmental and social issues are considered as part of due diligence process, and property managers are employed after a tender process that includes ESG considerations such as health and safety, fire safety, disability non-discrimination, environmental and sustainability policies, quality standards, equal opportunities and data protection

Environmental and Social Impact of Biofuels/Biomass

- ✓ The Church Commissioners is committed to align with EU Taxonomy DNHS criteria regarding use of biomass fuel

Environmental impact of agriculture

- ✓ 100% of forests are certified under the Forest Stewardship Council (FSC® 1), the Programme for the Endorsement of Forest Certification (PEFC), the Sustainable Forestry Initiative (SFI) or a similar international standard
- ✓ The Church Commissioners is committed to align with EU Taxonomy DNHS criteria regarding sustainable agriculture projects

Water Management

- ✓ The Church Commissioners is committed to align with EU Taxonomy DNHS criteria regarding sustainable water management projects

Inclusion

- ✓ The Church Commissioners monitors and tracks the team diversity of their asset managers on a regular basis³²

³¹ <https://www.churchofengland.org/sites/default/files/2017-11/Property%20Investments%20Policy.pdf>

³² <https://www.churchofengland.org/sites/default/files/202106/The%20Church%20Commissioners%20for%20England%20Stewardship%20Report%202020.pdf>

DISCLAIMER

1. Validity of the SPO: Until Material changes are made to the Sustainable Financing Framework and/or the Selection Criteria
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, in particular the images, text and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are protected under copyright and trademark law. Any use thereof shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

The issuer that is the subject of this report may have purchased self-assessment tools and publications from ISS Corporate Solutions, Inc. ("ICS"), a wholly-owned subsidiary of ISS, or ICS may have provided advisory or analytical services to the issuer. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any issuer's use of products and services from ICS by emailing disclosure@issgovernance.com.

This report has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While ISS exercised due care in compiling this report, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and scores provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

Deutsche Börse AG ("DB") owns an approximate 80% stake in ISS HoldCo Inc., the holding company which wholly owns ISS. The remainder of ISS HoldCo Inc. is held by a combination of Genstar Capital ("Genstar") and ISS management. ISS has formally adopted policies on non-interference and potential conflicts of interest related to DB, Genstar, and the board of directors of ISS HoldCo Inc. These policies are intended to establish appropriate standards and procedures to protect the integrity and independence of the research, recommendations, ratings and other analytical offerings produced by ISS and to safeguard the reputations of ISS and its owners. Further information regarding these policies are available at <https://www.issgovernance.com/compliance/due-diligence-materials>.

© 2021 | Institutional Shareholder Services and/or its affiliates

ANNEX 1: Methodology

ISS ESG Sustainable KPIs

The ISS ESG Sustainable Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of the Church Commissioners' Green/Social/Sustainability Bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Sustainable Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Sustainable Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by the Church Commissioners (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDGs

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which the Church Commissioners' Green/Social/Sustainability Bonds contribute to related SDGs.

ANNEX 2: Quality management processes

SCOPE

The Church Commissioners commissioned ISS ESG to compile a Green/Social/Sustainability Bonds SPO. The Second Party Opinion process includes verifying whether the Sustainable Financing Framework aligns with the ICMA Green Bond Standards and Social Bond Standards and assessing the sustainability credentials of its Green/Social/Sustainability Bonds, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Standards and Social Bond Standards
- ISS ESG KPI set: - Macro Level KPIs

ISSUER'S RESPONSIBILITY

The Church Commissioners' responsibility was to provide information and documentation on:

- Sustainable Financing Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green/Social/Sustainability Bonds to be issued by the Church Commissioners based on ISS ESG methodology and in line with the ICMA Green Bond Standards and Social Bond Standards.

The engagement with the Church Commissioners took place in July 2021.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

ANNEX 3: FROM THE CHURCH COMMISSIONERS' SUSTAINABLE FINANCING FRAMEWORK

GBP PROJECT CATEGORY	ELIGIBLE REPORTING METRIC
Renewable Energy	<ul style="list-style-type: none"> • Expected annual renewable energy generation (MWh/year) • Renewable energy capacity added (MW) • Estimated annual GHG emissions avoided (tCO₂e/year)
Clean Transportation	<ul style="list-style-type: none"> • Estimated annual GHG emissions avoided (tCO₂e/year) • Number of EV charging stations installed
Sustainable Land Use	<ul style="list-style-type: none"> • Estimated CO₂ sequestered (in tCO₂e/year) • Certified forest planted/preserved under management (square meters/acres/hectares)
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> • Absolute amount of wastewater treated, reused or avoided (m³, or as %)
Pollution Prevention and Control	<ul style="list-style-type: none"> • Estimated GHG emissions reduced/avoided through the project (tCO₂eq)
Energy Efficiency	<ul style="list-style-type: none"> • Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings) • Estimated GHG emissions reduced/avoided through the project (tCO₂eq)
Green Buildings	<ul style="list-style-type: none"> • Number and floor space of Green Buildings meeting the eligibility criteria: <ul style="list-style-type: none"> - BREEAM Very Good or above - LEED certification Gold or Platinum - EPC rating B or above - Other equivalent internationally or nationally recognised certifications • Percentage improvement achieved by energy efficiency improvement projects
Climate Change Adaptation	<ul style="list-style-type: none"> • Number of information support systems • Qualitative description of other investments

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact:

Federico Pezzolato

SPO Business Manager EMEA/APAC

Federico.Pezzolato@isscorporatesolutions.com

+44.20.3192.5760

For Information about this Sustainability Bonds SPO, contact: SPOOperations@iss-esg.com

Project team

Project lead

Jolly Sinha
Sr. Associate
ESG Consultant

Project support

Giorgio Teresi
Associate
ESG Consultant

Project supervision

Viola Lutz
Associate Director
Head of Climate Services