CCLA

QUARTERLY BULLETIN

30 March 2025

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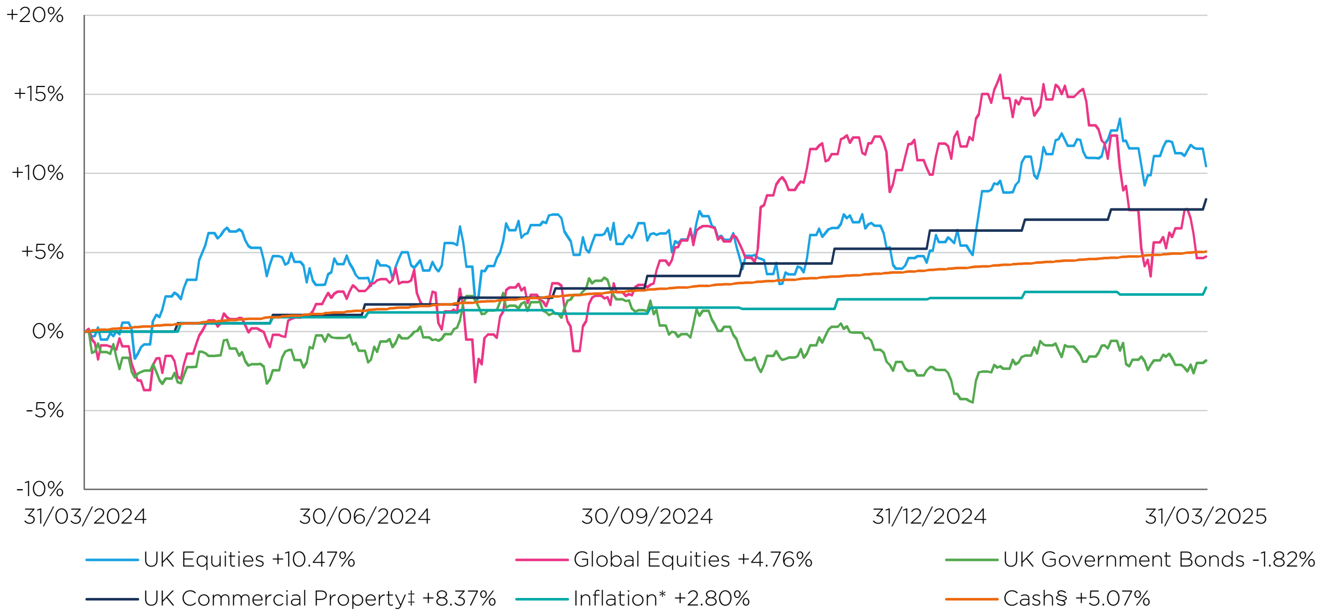
Market review and outlook



General Market Indices

	Current quarter (%)	Last twelve months (%)	Last three years annualised (%)	Last five years annualised (%)
UK Equities (MSCI UK Investable Markets Index)	+5.10	+10.47	+7.35	+11.98
Global Equities (MSCI World Index)	-4.71	+4.76	+8.30	+15.20
Global Equities ex UK (MSCI World ex UK Index)	-5.11	+4.48	+8.28	+15.31
UK Govt. Bonds (Markit iBoxx £ Gilts Index)	+0.45	-1.82	-6.80	-6.29
Sterling Bonds ex UK Govt, (Markit iBoxx £ Non-Gilts Index)	+0.70	+2.38	-0.82	-0.21
UK Commercial Property (AREF/MSCI™ All Prop Monthly) ‡	+1.87	+8.37	-2.50	+3.34
Inflation (CPI) *	+0.67	+2.80	+5.51	+4.60
Cash (SONIA) §	+1.13	+5.07	+4.11	+2.47

Source: Bloomberg (Data shown is daily except for Inflation and UK Commercial Property where data shown is monthly)

§ SONIA (Sterling Overnight Index Average) is estimated for the most recent month. From 1/1/21: SONIA. Prior to 1/1/21: 7-Day London Interbank Sterling Bid Rate (7-Day LIBID).
* CPI (Consumer Price Index) is reported on a 1m lag.
‡ MSCI UK Monthly Property is estimated for the most recent month.

World share prices, as measured by the MSCI World Index, fell 4.7%, in pound sterling, during the first quarter[1]. By industry, prices mainly fell in the consumer discretionary and information technology (IT) sectors. By region, share prices fell in the US, but they rose in the UK and the eurozone.

Shares had ended 2024 with high valuations, especially in the US. That's because, firstly, it looked as if central banks had tamed inflation. Secondly, investors expected that President Trump would usher in tax cuts and deregulation. And thirdly, share price gains in 2024 had concentrated among a narrow group of 'winning' companies, mostly in the US. Each of these presumptions changed in early 2025.

Firstly, inflation continues to trend above central banks' targets. As a result, central banks are unlikely to cut interest rates in 2025 by as much as many investors believed just a few months ago.

In the UK, for example, consumer price (CPI) inflation went from 2.5% yoy in December 2024 to 3.0% in January 2025 and 2.8% in February. The Bank of England (BoE) cut interest rates once, from 4.75% to 4.5% in February, but raised its inflation forecast, to 3.7% yoy by the third quarter of 2025. It expects inflation to remain above its 2% target until 2027.

Secondly, some of President Trump's policies triggered significant uncertainty. In the first weeks of his presidency, investors and policymakers like the Fed took a wait-and-see approach. But gradually, the ad-hoc nature of the Trump administration's decisions, particularly on tariffs, started to weigh.

That impact on investor sentiment showed up when several so-called 'Trump trades' unwound. The share price of Elon Musk's automaker Tesla, for example, had gained 61% between the US election and the end of 2024. But by the end of the first quarter, its share price has given up those gains. The US dollar had strengthened after Trump's election. But it weakened from $1.25 per pound sterling at the end of 2024 to nearly $1.30 at the end of March.

Thirdly, the stock market saw a broadening of returns from those segments that had outperformed in 2024. Prices of shares in artificial intelligence (AI) and IT deflated, as did the US market as a whole.

In January, Chinese firm DeepSeek released an AI tool as powerful as those of its US competitors, but reportedly developed at a fraction of the cost. That news triggered a fall in AI- and semiconductor-related share prices. Chip manufacturer NVIDIA's share price, for example, fell more than 19% in the first quarter. Share prices in the IT segment of the S&P500 index weakened c. 13% over the quarter.

From a regional perspective, the S&P500 index of leading US shares weakened 4.3% during the quarter, whereas UK share prices rose 5.1%. In contrast to policy uncertainty in the US, the UK government's emphasis on growth in early 2025 boosted UK shares, as did higher prices for mining companies and strong earnings reports by UK bellwethers such as British Airways parent IAG. In the Eurozone, strong earnings reports boosted share prices as well, as did the incoming German government's planned spending increases.

[1] *Source of share prices: MSCI (net total return in local currency), except where stated.*

Outlook

At the end of 2024, we identified which vulnerabilities might lead us to review the level of risk we take in our portfolios.

1. Tariffs and a possible trade war were one of those vulnerabilities. After the additional tariffs that President Trump announced on 2 April, average US import tariffs may rise to their highest level since the Second World War.
2. An upturn in inflation was another vulnerability that we identified in late 2024. That vulnerability is materialising in both the US and the UK.
3. A third vulnerability, weaker earnings, is less apparent. US corporate earnings forecasts have mostly fallen since the beginning of the year. But analysts still expect the average earnings growth of the companies in the S&P500 index to be c. 11% in 2025.
4. A major fiscal crisis, in the US or Europe, would further change our risk positioning, but currently seems unlikely.

As a result, we have reduced the equity exposure in our multi-asset portfolios by 5% since the beginning of March. Within the equity segments of our portfolios, our bottom-up research into individual companies had already led to reduced weights for US stocks, relative to European and UK stocks, over several months.

Do we believe that this stock market rally is over? No. CCLA's positioning remains cautiously positive on equity risk, because developed economies' GDP and corporate earnings continue to grow. But we have reduced our multi-asset portfolios' overall equity exposure, and we have reduced the weight of US shares, relative to shares in other regions.

Investing through a trade war

Tariffs are stagflationary. They lower growth and raise prices in the short term. Stagflation is bad for risk assets, especially shares and bonds – the 1970s attest to that.

The tariff announcement. The incremental tariffs announced on 2 April were larger than the market had expected. The average US tariff was 3% before Trump's election[1]. It rose to 10% with the hikes to China, Mexico and Canada tariffs. One estimate after the 2 April announcement has them at 30%.

Compared with a 20% average tariff after the 1930 Smoot-Hawley Tariff Act, this puts US tariffs at a 120-year high. Many economists think of Smoot-Hawley as a contributing factor causing the Depression.

Market impact. Share prices fell, as was to be expected. US Treasury prices rallied, which suggests the market is factoring in a higher chance of recession and Fed rate cuts. Four 0.25% cuts are now priced into the forward bond yield curve by April next year. The US dollar weakened.

We cut overall equity risk in mid-March. We cut the equity weight in our investment funds[2] from 75% to 70%, specifically on fears for a trade war. Instead, we reinvested 2 percentage points in index-linked gilts due 2026/2027 and kept 3 percentage points in cash.

But we didn't buy long-dated bonds. US inflation is no longer slowing and tariffs are more likely to be inflationary. We can't see the Federal Reserve (Fed) make the rate cuts that the market priced in.

We've been re-cycling capital from the US into Europe. Over the last 12 months, we've reduced US exposure and increased it in Europe. In the equities segments of our funds, US weight has fallen from 70% to 62%, whilst Europe (inc. the UK) has risen from 26% to 36%.

And in industry sectors that are likely to see large impacts, such as consumer discretionary, we have tilted portfolios to more defensive stocks. For example, we've sold Nike and added Compass Group.

What next for our risk level? Equity bull markets normally run from recession to recession. So, unless this is the start of a recession, it is unlikely to be the peak of this stock market cycle. Our view is that there is enough cushion in US growth to avoid a recession, so we are more likely to add risk to the investment funds than cut further.

However, we have to see what the international reaction is. Reactions so far seem restrained, with policymakers avoiding an all-out trade war. If that view looks like changing, we will cut our equity weight further, to 65% and possible as low as 60%. Instead, we'd buy more index-linked bonds, possibly of longer duration, as the Fed would then cut interest rates.

What next for our equity holdings? We are unlikely to make large or immediate changes to our share selection following Trump's announcement.

Take, for example, luxury fashion house Hermès, which we hold. Hermès' gross margins are near 70% and US sales account for 20% of its revenue. We estimate that Trump's tariff announcements would impact its profits by just 2%. Hermès would have to increase prices just 6% to mitigate the impact – perfectly manageable for their clientele.

Our investment funds also have high exposure to parts of the market where the direct impacts of tariffs are non-existent and where second-order impacts from lower growth should be manageable.

In financials, for example, our exposure is skewed to exchanges, data businesses and insurance brokers that don't sell goods. Revenue visibility here is high, with multi-year contracts and a high proportion of recurring revenue.

Keeping our focus on quality. As we look forward into a world where uncertainty is high and tariffs loom over the global economy, it will be more important than ever to focus on high-quality businesses, whose growth doesn't rely on the economic cycle. High-quality businesses typically have higher margins, so higher costs because of tariffs will have less of an impact on their profits. Similarly, quality businesses have pricing power and the ability to pass on higher costs.

Lastly, focusing on structural growth, rather than cyclical growth, should stand the investment funds in good stead if the economic situation deteriorates further.

[1] *Budget Lab at Yale, March 2025*
[2] *COIF Charities Investment Fund, COIF Charities Ethical Investment Fund, CBF Church of England Investment Fund and Catholic Investment Fund.*

Engaging with the UK Home Office on the Transparency in Supply Chains (TISC) statutory guidance

At CCLA, we dedicate significant effort to engaging with individual companies to enhance their approach to addressing modern slavery. To support this work, we also engage with UK policymakers aimed at pushing for more progressive modern slavery legislation.

One such example is our engagement with the Home Office Forced Labour Forum, a group of stakeholders from business, civil society, academia and trade unions. Through this Forum, we have been heavily involved in a series of meetings over several months with the Home Office and their consultants during the drafting stage of updated statutory guidance for the 2015 Modern Slavery Act's Transparency in Supply Chains provisions.

The provisions are set out in section 54 of the Act and require businesses operating in the UK above a certain size to report annually on the steps they have taken to tackle modern slavery in their operations and global supply chains. The corresponding guidance provides advice on how organisations can produce high quality modern slavery statements and develop a more effective approach to tackling modern slavery.

In meetings with the Home Office, we showcased the CCLA UK Modern Slavery Benchmark and emphasised our view that businesses should be encouraged to find, and to report on, instances of modern slavery in supply chains. Modern slavery is likely to exist in the supply chain of almost every company. Therefore, rather than indicating an absence of modern slavery, we believe that failing to 'find it' demonstrates that a company's human rights due diligence processes are inadequate.

In March, coinciding with the ten-year anniversary of the Modern Slavery Act, the Home Office published its updated statutory guidance. We were very pleased to see that the new guidance draws on CCLA's UK Modern Slavery Benchmark framework and that our benchmark is linked to and positively referenced in the guidance. The statutory guidance states: "A useful resource to support organisations developing KPIs in the above areas is the CCLA Modern Slavery Benchmark.The CCLA Benchmark includes several metrics under each of the above areas, and organisations could use these to develop suitable KPIs for their business".

We expect that the guidance will be the first port of call for all companies in scope of and working to comply with the Modern Slavery Act and are delighted that our benchmark has received such acclaim.

The political backdrop

The Labour government has set out its intention to take a "tougher stance against businesses that do not meet our expectations in tackling forced labour" (Minister for Safeguarding, Jess Phillips). It has also committed to publishing a new modern slavery action plan, which will include a focus on prevention, as well as remedy. We were delighted to see Phillips' adoption of our view that, "modern slavery is so prevalent that if businesses are not identifying risks and cases, they are probably not looking hard enough."

Whilst momentum is building at home on strengthening the Modern Slavery Act, there is also growing pressure on the UK to get this work done, following the development of mandatory human rights due diligence legislation by European peers. We will continue to do our bit to ensure that this work comes to fruition.

Ethical and responsible investment report

Our work has four strands:

1. Engagement focused on social and environmental issues in the context of Christian mission and witness.
2. Ensuring that the Fund is managed in line with the faith consistent investment policy, informed by a dedicated Faith-Consistent Investment Committee.
3. Proxy voting on corporate governance issues to protect shareholder value and address excessive remuneration.
4. Responsibilities under the UK Stewardship Code and the UN Principles for Responsible Investment (PRI).

Quarterly highlights

In March, the Home Office published updated statutory guidance for businesses on how to tackle modern slavery in supply chains. The guidance was developed with support of the Forced Labour Forum, a diverse group of stakeholders from business, civil society, academia and trade unions, including CCLA. We were delighted to see that the guidance references CCLA's Modern Slavery UK Benchmark. Please refer to the Sustainable Market Topic commentary for details.

Having filed a climate-related shareholder resolution at NextEra Energy in late 2024, we agreed to withdraw this proposal in Q1 2025 after the company committed to new lobbying disclosures. NextEra has a target to reach net-zero carbon emissions by 2045 although some of the trade associations to which it belongs can present forceful obstacles to addressing climate change. Our proposal asked the board to report to shareholders on its approach to identifying and addressing misalignments between its lobbying and policy influence activities, and its 'Real Zero' goal. The company has committed to publishing a lobbying report.

In Q1, we closed a public consultation, that had been running since November, which tested the viability and support for a potential new benchmark aimed at tackling corporate air pollution. The consultation closed with 45 responses across academia, NGOs, investors, public bodies and charities. We are now discussing next steps.

In Q1, our engagement with companies around the CCLA Corporate Mental Health Benchmark continued. We had meetings with 23 companies during the quarter on this topic. In March, UK mental health benchmark assessments took place; the UK benchmark results will be published on 17 June.

Following previous successful engagement on UK Living Wage, and the accreditation of Admiral and Watches of Switzerland, we expanded this programme and wrote to 16 further holdings, asking them to seek accreditation. We have had several responses and will report on progress during the year.

Quarter one voting in detail

CCLA aims to vote at all company meetings where we have portfolio holdings. The Catholic Investment Fund did not support 25% of management resolutions at investee companies this quarter.

We have now published our updated 2025 vote guidelines. Our aims, when voting, are threefold: to promote good corporate governance, to reflect the underlying values of our clients, and to align with our wider stewardship work. This year, we have introduced an enhanced approach to voting against directors on climate change. For example, we will vote against the CEO at companies expanding fossil fuel dependence, at banks and insurance companies where we have concerns over the company's continued financing of fossil fuels, and at companies without a projected decarbonisation pathway at least in line with a below two degrees scenario. Where executive remuneration metrics do not include a climate related KPI, we will vote against the remuneration report and remuneration committee chair. Please refer to our 2025 vote guidelines at www.ccla.co.uk for full details.

Working for a fairer, more ethical Indian sugarcane industry

In 2023, a series of New York Times articles uncovered exploitative abuse, forced labour and coerced hysterectomies in the Maharashtra sugar cane industry. As a member of the Interfaith Center on Corporate Responsibility's Equitable Global Supply Chains group, we picked up on the issue and joined an international group of investors engaging major sugar buyers from the region. As a direct investor in Coca-Cola Co, we took the lead in engaging the company alongside Mercy Investment Service.

We are asking Coca-Cola to demonstrate leadership in tackling this deep-rooted issue and ensure there are effective social dialogue mechanisms with affected workers. Coca-Cola has engaged constructively and launched several initiatives in India. The company has now published a statement outlining the steps it has taken to address this problem.

It will take more than action by a single company to solve this issue. To support wider change, we have also been engaging with sustainable sugar certification body, Bonsucro, and with the Working People's Charter, a coalition of organisations working on issues related to informal labour in India.

Values based restrictions

We confirm that the Catholic Investment Fund has been managed in accordance with its faith consistent investment policy this quarter.

Catholic Investment Fund

Performance comment

2024 ended with optimism after Trump's election. Many investors considered that tariffs were just negotiating tools and that the 'Magnificent 7' would continue their never-ending march higher. But the first quarter of 2025 proved much different. A trade war has started, and policy uncertainty is leading to downgrades in growth expectations in the US.

In Europe, the view that the US can no longer be relied on for defence has spurred increased spending. Germany, in particular, has made strong commitments. The fiscal U-turn by the incoming German government marked a step change in the country's outlook.
Over the quarter the Fund returned -3.64% compared with the comparator return of -3.29%. Over the last 12 months, the Fund returned -2.63% compared with the comparator return of 4.05%.

- In absolute terms, the best performance in the fund's share portfolio came from the financial sector (+6%) and from consumer staples companies (+3%). Prices for IT, health care and industrials shares fell 10%, 7% and 5%, respectively.
- Relative to its comparator benchmark, the fund's holdings in the IT and consumer discretionary sectors outperformed the comparator, but its holdings lagged in industrials and health care.

The fund's property portfolio returned c. 4%. Private equity returns were negative, but the underlying portfolio companies remain strong. The value of infrastructure in the fund fell 6%, largely because of expectations that interest rates will remain higher for longer.

Fund update

The unpredictable nature of the Trump administration has added uncertainty to financial markets. Against this backdrop, we have made the following changes:
We cut the proportion of equities in the fund by 5 percentage points. Instead, we increased its holdings of index-linked gilts and cash.

At industry sector level, we reduced the fund's exposure to IT and semiconductors. We exited or reduced some of our strongest performers in 2024, including NVIDIA, Broadcom and TSMC. For stock-specific reasons, we reduced exposure to US health care. In regional terms, we reduced US exposure and increased exposure to Europe.
Focusing on high-quality businesses, and on structural, rather than cyclical, growth should stand the portfolio in good stead. In alternative assets, we have pivoted to assets that derive a higher proportion of their returns from capital growth, instead of income from dividends.

Income

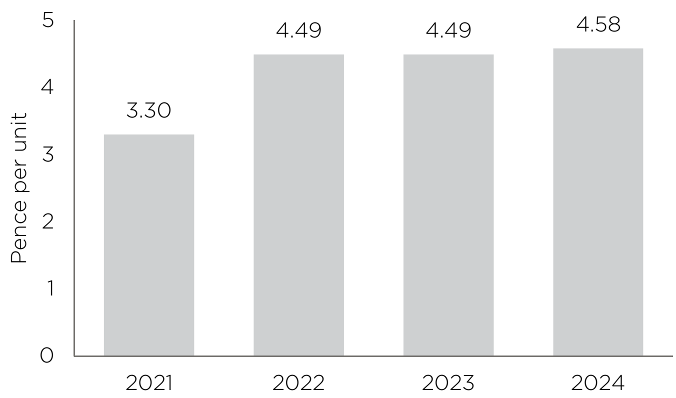
Gross dividend yield 3.06%*

MSCI $ UK IMI dividend yield 3.58%

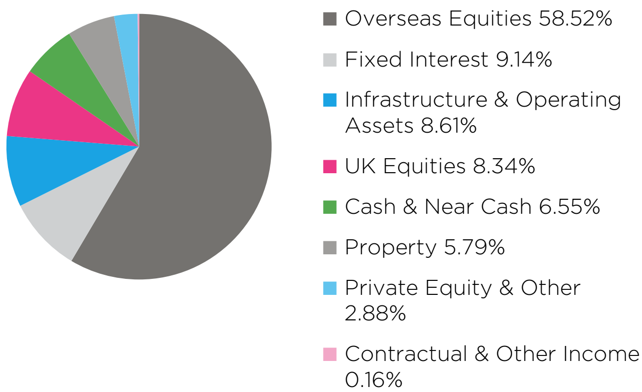
MSCI $ World ex UK dividend yield 1.76%

* Based upon the net asset value and an estimated annual dividend of 4.72p.

Past distributions



Asset allocation as at 31 March 2025



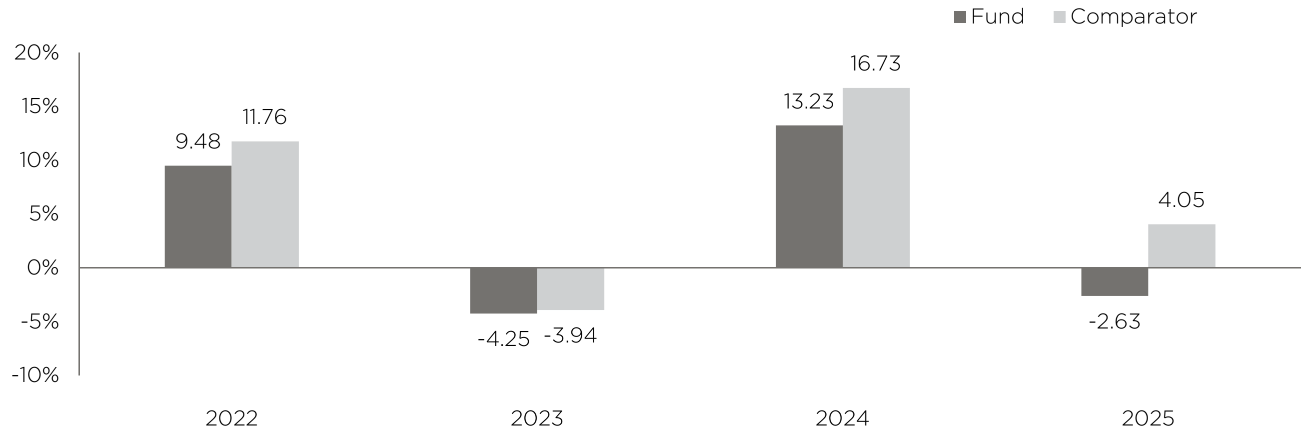
Total return performance

Performance* to 31 March 2025	3 months	1 year	3 years p.a.
Investment	-3.64%	-2.63%	+1.82%
Comparator ‡	-3.29%	+4.05%	+5.28%

‡ Target benchmark is CPI +5%. CPI is reported on a 1m lag.

Total return performance by year

12 months to 31 March	2022	2023	2024	2025
Investment	+9.48%	-4.25%	+13.23%	-2.63%
Benchmark	+11.76%	-3.94%	+16.73%	+4.05%



Comparator - composite: From 01/04/21, MSCI World 75%, MSCI UK Monthly Property 5%, iBoxx £ Gilts 15% & SONIA 5%. Source: CCLA

Top 10 holdings as at 31 March 2025

UK Treasury 4.5% 07/12/2042	2.5%
UK Treasury Gilt 3.25% 22/01/2044	2.5%
COIF Charities Property Fund (Sub-Holding)	2.0%
Microsoft Com NPV	1.8%
Amazon.Com Com USD0.01	1.6%
Infratil NPV	1.6%
Tritax Big Box REIT Plc GBP0.01	1.5%
Brookfield Infrastructure NPV	1.5%
Oakley Capital Investments Ltd	1.5%
Roper Technologies Inc Com USD0.01	1.4%

* Performance of the funds is shown net of management fees and other expenses with income reinvested. Comparator performance is based on market indices which are not adjusted for any management fees or investment expenses. Past performance is not a reliable indicator of future results.

IMPORTANT INFORMATION

This document is issued for information purposes only. It does not provide financial, investment or other professional advice.

To make sure you understand whether our product is suitable for you, please read the key information document and prospectus and consider the risk factors identified in those documents. We strongly recommend you get independent professional advice before investing.

Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise. You may not get back the amount you originally invested and may lose money.

The fund can invest in different currencies. Changes in exchange rates will therefore affect the value of your investment. Investing in emerging markets involves a greater risk of loss as such investments can be more sensitive to political and economic conditions than developed markets. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries. The annual management charge is paid from capital. Where charges are taken from capital rather than income, capital growth will be constrained and there is a risk of capital loss.

Any forward-looking statements are based on our current opinions, expectations, and projections. We do not have to update or amend these. Actual results could be significantly different than expected.

Investment in this fund is only available to charities within the meaning of section 1(1) of the Charities Act 2011.

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For information about how we obtain and use your personal data please see our privacy policy at www.ccla.co.uk/privacy-notice.

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