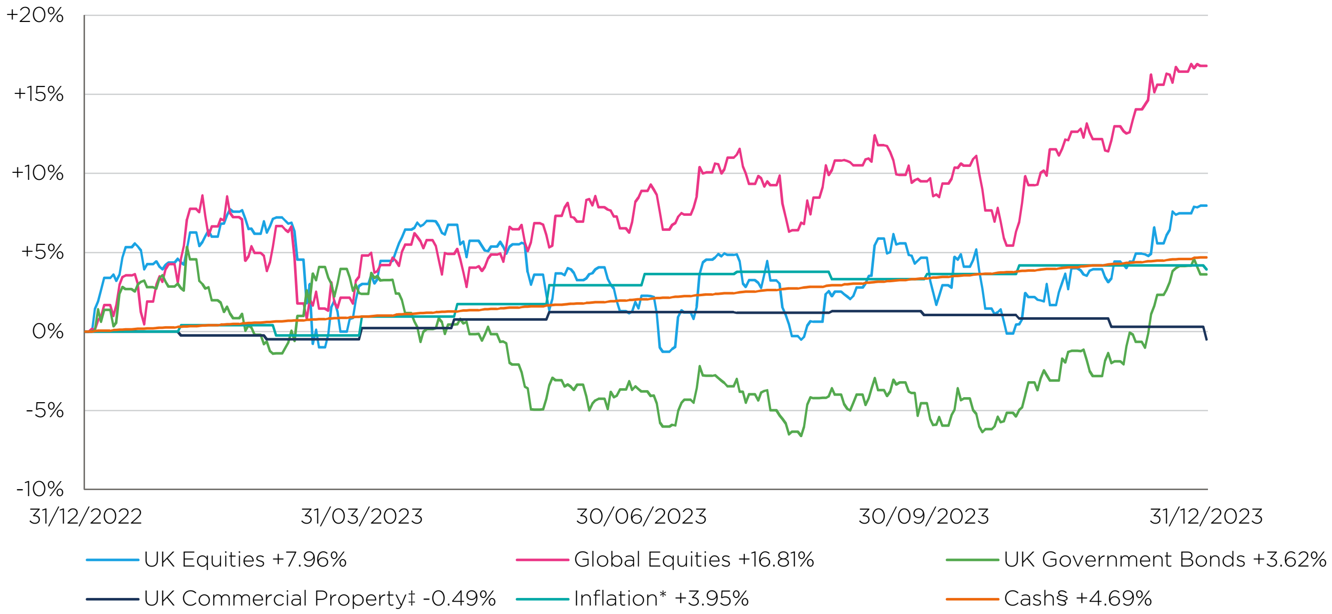
CCLA

QUARTERLY BULLETIN

31 December 2023

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)	+3.14	+7.96	+9.18	+6.34
Global Equities (MSCI World Index)	+6.67	+16.81	+9.80	+12.78
Global Equities ex UK (MSCI World ex UK Index)	+6.87	+17.21	+9.72	+13.11
UK Govt. Bonds (Markit iBoxx £ Gilts Index)	+8.54	+3.62	-9.69	-3.00
Sterling Bonds ex UK Govt, (Markit iBoxx £ Non-Gilts Index)	+7.34	+8.58	-4.69	+0.39
UK Commercial Property (AREF/MSCI™ All Prop Monthly) ‡	-1.52	-0.49	+2.38	+1.63
Inflation (CPI) *	+0.30	+3.95	+6.54	+4.24
Cash (SONIA) §	+1.30	+4.69	+2.03	+1.34

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.

Following several difficult months earlier in the year, the final quarter of 2023 brought a marked improvement in sentiment. The change in fortunes stemmed from investors' growing confidence that, after nearly two years of monetary policy tightening in the shape of rising official interest rates, relief was in sight and rates had not only peaked but would begin to decline before too long.

The expectation of looser monetary conditions is generally good news for equity markets for two principal reasons. Lower interest rates would be expected to promote consumer spending and business investment, making it easier for companies to generate earnings. Meanwhile as cash and other 'low risk' assets offer diminishing yields, investing in company shares can be more attractive to investors.

The global equity market delivered total returns for the latest three-month period of 6.7% in sterling terms, bringing returns for the full calendar year up to 16.8%. The fortunes of different industry sectors continued to diverge, with information technology enjoying the strongest gains while the weakest part of the market, the energy sector, fell back slightly over the quarter. Over 2023 as a whole, the IT sector gained more than 50%. Information services and consumer discretionary stocks were also among the stronger performers. Consumer staples and utilities joined the energy sector in lagging the market – these sectors were all flat or slightly negative over the year.

As with equities, fixed interest markets generally benefit when interest rates are expected to be lower rather than higher, because bond prices move in the opposite direction to yields. The UK government bond ('gilt') market as a whole gave total returns of 8.5% over the latest quarter, overcoming earlier losses to leave returns for the year as a whole at 3.6%. The corresponding index for corporate bonds also had a strong period, returning 7.3% for the quarter and 8.6% over the calendar year.

In UK commercial property, rental flows have mainly held up well and so income, a key element of returns to property investors, has remained healthy. Capital values, which in 2022 experienced a sharp reversal of gains enjoyed in previous years, had not yet begun to recover by the end of 2023. As with most other assets, property prices generally move inversely to interest rates. The current higher yield environment is not the only challenge facing the asset class, but nevertheless a forthcoming decline in cash and bond yields would be expected to support some recovery in property valuations.

Outlook

In contrast to a year ago, when commentators were almost unanimous in forecasting recession for the major global economies, opinion is now more divided about the outlook. It remains to be seen whether economic contraction has indeed been avoided with a 'soft landing' now set to turn to stronger growth, or whether recession has merely been delayed as tighter monetary conditions take longer than in previous cycles to impact the budgets and behaviour of households and businesses.

The US economy in particular has proved remarkably resilient, with levels of activity which bode well for corporate earnings; though continued strength in the jobs market would reduce pressure on the Federal Reserve to cut interest rates, which in turn could disappoint investment markets.

The UK remains beset by the weak productivity growth, import-dependency and labour market constraints that make it all the more difficult to reinvigorate economic activity without stoking inflation. Europe, meanwhile, could find its progress out of the current slowdown hampered not just by the ongoing conflict in Ukraine but, thanks to the dominance of Germany's economy as a driver of progress in Europe overall, to weakness in export markets. Key among these is China, where a delayed post-pandemic recovery quickly fizzled out last year in the face of mounting policy pressures, not least the attempt to avoid crisis in a massively debt-laden property sector.

For investors, a substantial element of 'good news' in the shape of an expected downturn in interest rates has recently been priced into asset markets. There is thus the potential for this positive sentiment to be reversed, should policy makers succeed in persuading markets that the relatively cautious approach they have been articulating is indeed likely to be executed. In any event, the more elevated are market valuations, the more important will be rising company earnings for further gains. Accordingly the performance of industry sectors and individual stocks will vary as investors focus on the prospects for different businesses in what remains, by the standards to which most market participants are accustomed, an environment of elevated inflation and interest rates.

Investor action on modern slavery

Modern slavery is an umbrella term encompassing slavery, servitude, human trafficking and forced or compulsory labour. Victims are controlled by punishment, debt bondage, threats, violence, deception and coercion.

While some companies are more exposed to the risk of modern slavery than others, we believe that all businesses are linked in some way, either directly or indirectly. Modern slavery infiltrates the supply chains of many everyday products and commodities, including food, electronics and clothing and is also rife in construction and hospitality.

Modern slavery is an abhorrent abuse of human rights and there is huge potential for action by businesses to reduce modern slavery around the world. What is more, large, listed companies can be highly influential in setting standards, implementing policies, and taking action to find, fix and prevent modern slavery. We recognise the important role that investors can play to bring about positive change.

CCLA Modern Slavery UK Benchmark

CCLA has spent more than ten years bringing investors together to help improve the efficacy of corporate action to find and fight modern slavery in supply chains. Yet, despite our best efforts, modern slavery continues to grow: it is now estimated that 50 million people worldwide are in a state of modern slavery.

In 2023, we set out on a new project aimed at accelerating the pace of change. Having identified a gap in the modern slavery data available to investors, we started to build a benchmark that assesses and ranks companies based on their modern slavery disclosures.

Launched in November 2023, the aims of the CCLA Modern Slavery UK Benchmark are to:

- develop a framework on the degree to which companies are active in the fight against modern slavery;
- create an objective assessment of corporate modern slavery performance aligned with statutory requirements, government developed guidance, and international voluntary standards on business and human rights;
- support modern slavery engagement by investors;
- provide a vehicle for learning and knowledge sharing;
- introduce a sense of competition between businesses, thereby expediating improvement in corporate practice.

The benchmark assesses the largest UK-listed companies on the degree to which they:

1. conform with the requirements of Section 54 of the Modern Slavery Act 2015
2. disclose information outlined in the Home Office Guidance on Modern Slavery
3. report on efforts to find, fix and prevent modern slavery

Companies are assigned to one of five performance tiers that correspond with the Independent Anti-Slavery Commissioners (IASC) maturity framework. For the full report and detailed findings please visit Modern slavery | CCLA.

Because of the global and interconnected nature of modern supply chains, it is likely that slavery exists somewhere in every business. While every company in the benchmark has a modern slavery policy, only 25 of them report that they have found modern slavery in their supply chains. This suggests that many modern slavery policies are ineffective.

Engagement with benchmarked companies

During the assessment process, each company was provided with a scorecard and given four weeks in which to respond. We met with 26 companies to discuss our findings and to suggest ways in which each could improve.

Companies will be assessed for a second time in 2024 and we look forward to reporting on progress.

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. Setting appropriate constraints on investment and exposure 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 Q4, we participated in a collaborative meeting with PepsiCo to discuss its use of plastics. The company has set 2030 targets on reducing the tonnage of virgin plastics used in both absolute and per serving terms. Yet despite these targets, the company has increased its use of virgin plastic in recent years. We are pushing for improved performance against the company's targets. Following our meeting, we later learnt that PepsiCo is being sued by New York state over its role in plastics pollution. Engagement will continue in 2024. We also met Unilever in Q4 to discuss this topic. Progress is slow but the commitment to improve is clear.

In 2023, we joined an alliance of 20 financial institutions known as the Platform Living Wage Financials (PLWF). The alliance encourages companies to aim for living wages in their global supply chains. CCLA is a member of the PLWF's apparel and textile working group and has joined the engagement working groups for Burberry and Nike. We met Nike in Q4 and received an update on living wage in the company's supply chain. Discussions will continue in 2024.

News emerged in 2023 that electronic chips manufactured by NVIDIA had been found in Russian weaponry. In Q4, we joined a small group of investors for a meeting with NVIDIA to discuss its approach to human rights. NVIDIA told us that it has hired a new ESG Legal Counsel with experience of human rights work and is developing a new human rights roadmap for the company.

In Q4, we co-filed a shareholder proposal at Coca-Cola Co, requesting the board to adopt an enterprise-wide policy to move towards healthier products. In response, the company requested a meeting with co-filers, with a view to a negotiated withdrawal.

At the end of 2022, we co-filed a shareholder proposal calling for Amazon's Board of Directors to commission an independent assessment of Amazon's adherence to its stated commitment to workers' freedom of association and collective bargaining rights as outlined in its Global Human Rights Principles. The proposal went to vote in May and received 35% of the overall vote (42% of independent shareholders' vote). In December 2023, we co-filed for a second time. The investor group co-filing alongside us has grown threefold since last year, showing a growing willingness by investors to take a stand. We look forward to reporting on the outcome in 2024.

Quarter four voting in detail

CCLA aims to vote at all company meetings where we have portfolio holdings. The Catholic Investment Fund did not support 16% of management resolutions at investee companies this quarter. Additionally, we supported six of the nine shareholder proposals tabled at the companies in which we invest.

We aim to support all pro-active shareholder proposals, particularly where a proposal complements one of our existing engagement priorities. During the quarter all the shareholder resolutions we voted on were at the Microsoft AGM and touched on areas including lobbying by third-party organisations, human rights, tax transparency and risks related to AI generated misinformation.

The power of benchmarking: modern slavery and mental health

In 2023, we launched the second iteration of our mental health benchmarks: the 'UK 100' in June and the 'Global 100+' on World Mental Health Day in October. The aim is to improve the way that companies manage and report on their approach to mental health in the workplace.

We acknowledge that benchmarking is a long game, and at just two years old, this benchmark is at a formative stage. Nonetheless, it appears to be doing its job in driving corporate performance on workplace mental health.

In 2023, we assessed and ranked 207 listed companies on their mental health disclosures. Of those, 119 companies engaged directly with CCLA and 42 improved sufficiently to move up by one or more performance tier compared to 2022. Those 42 'improver' companies employ between them more than seven million people worldwide.

Meanwhile, the CCLA-led Global Investor Coalition on Global Mental Health continues to grow. At the end of 2023, it numbered 52 investor signatories, with a combined $8.7 trillion in assets under management.

Building on the success of the mental health benchmark, we have launched a parallel benchmark on modern slavery that was published in November. Please refer to the Sustainable Market Topic commentary (or visit our website) for more information.

Ethical constraints

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

Over the quarter the Fund returned 8.94% compared with the comparator return of 6.28%. Over the last 12 months, the Fund returned 12.33% compared with the comparator return of 13.28%.

Most of the asset markets represented in the Fund, notably equities which make up the major part of the portfolio, rose over the quarter as investors became more confident that official interest rates would begin to decline in the coming months. Lower interest rates are generally supportive of investment market returns.

The slight underperformance over the full year stemmed principally from weakness in some of the alternative assets which are represented in the Fund but not in the comparator, such as renewable energy. However as the dominant asset class within the Fund, the equities portfolio is the key driver of relative returns. Over the latest quarter returns from the Fund's equity holdings were higher than those of the broad equity market as measured by the MSCI World Index and over the calendar year they were marginally lower.

The Fund's allocation to the technology stocks which dominated market returns in 2023 is lower than the sizeable weight of these companies in the market. Thus, although the portfolio's technology holdings contributed significantly to absolute returns, these gains were lower than those of the sector as a whole. In some other sectors such as industrials, however, the Fund's returns were stronger than the market average. Examples include industrials and financials. Over the latest quarter and over the year as a whole, the Fund also benefited from avoiding the traditional energy sector, which was the weakest of the industry sectors in the index.

Fund update

There were no substantial changes over the latest quarter in the balance of asset classes held.

Within equities most portfolio activity during the quarter was incremental, taking advantage of gains in some of the best-performing stocks to realise profits and reinvest in others which we considered to be better placed to add value in the coming periods. Among the companies in which we reduced the Fund's holdings were Intuit, provider of QuickBooks accountancy software; and chipmaker Nvidia. We continue to regard these as strong businesses but felt that some of the Fund's capital would be better applied elsewhere. Proceeds from these 'trims' were used to add to several existing holdings including call centre software supplier Nice; and the personal care and cosmetics business Estée Lauder.

Income

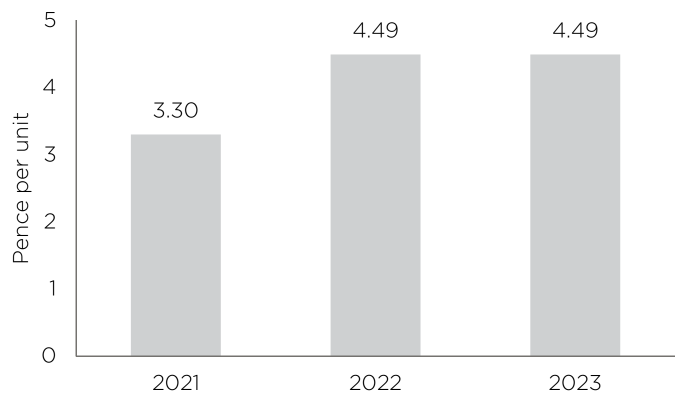
Gross dividend yield 2.83%*

MSCI $ UK IMI dividend yield 3.59%

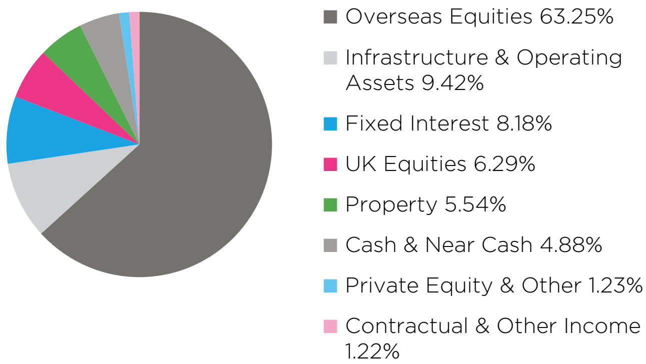
MSCI $ World ex UK dividend yield 1.86%

* Based upon the net asset value and an estimated annual dividend of 4.49p.

Past distributions



Asset allocation as at 31 December 2023



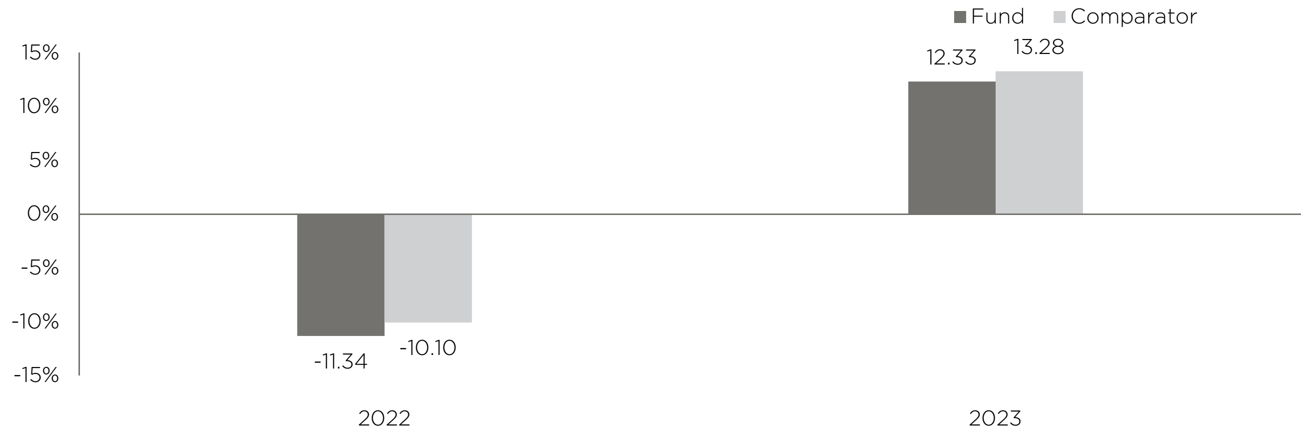
Total return performance

Performance* to 31 December 2023	3 months	1 year
Investment	+8.94%	+12.33%
Comparator ‡	+6.28%	+13.28%

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

Total return performance by year

12 months to 31 December	2022	2023
Investment	-11.34%	+12.33%
Benchmark	-10.10%	+13.28%



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 December 2023

UK Treasury Gilt 3.25% 22/01/2044	3.7%
UK Treasury 4.5% 07/12/2042	3.6%
Microsoft Com NPV	2.1%
COIF Charities Property Fund (Sub-Holding)	2.1%
Amazon.Com Com USD0.01	1.4%
IntercontinentalExchange Group Inc Com USD0.01	1.3%
ICON Plc Com NPV	1.3%
Ansys Com USD0.01	1.3%
Agilent Technologies Com USD0.01	1.3%
S And P Global Inc Com USD1	1.3%

* 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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