Response to the UK Stewardship Code Principles

Covering the reporting year to end of March 2023

Contents

CCLA supports Koestler Arts

Koestler Arts is the UK's leading arts charity. It is nationally respected for its ground-breaking work using the arts as a catalyst for positive change in the lives of people within the criminal justice system and in the public's perception of their potential.

Cover image courtesy of Koestler Arts. *The Lighthouse*, HM Prison Castle Huntly, Belpech Trust. First-Time Entrant Award for Painting.

koestlerarts.org.uk

Introduction

This report is CCLA's response to the Financial Reporting Council's Stewardship Code for the financial year 2022–2023. The Stewardship Code comprises a set of 'apply and explain' principles for asset managers in order to increase the effectiveness of the investment industry's approach to stewardship.

The Code sets out 12 principles for asset owners and asset managers to explain their approach. This covers, 'purpose and governance', 'investment approach', 'engagement' and 'exercising rights and responsibilities'.

This document sets out how CCLA, in its role as an asset manager, undertakes stewardship for its mandates and applies each of the twelve principles of the code.

This response has been approved by our Board and is signed by our Chief Executive Officer, Peter Hugh Smith.

> 'Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'
>
> The Financial Reporting Council, 2019

Purpose and governance

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Signatories to the FRC's 2020 Stewardship Code should explain:

- the purpose of the organisation and an outline of its culture, values, business model and strategy
- their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why.

CCLA primarily provides investment management products and services to charities, religious organisations and the public sector.

Our purpose is to help our clients maximise their impact on society by harnessing the power of investment markets. This requires us to provide a supportive and stable environment for our staff and deliver trusted, responsibly managed and strongly performing products and services to organisations, irrespective of their size.

Our investment beliefs

As an asset manager our aim is to deliver, consistent risk-adjusted returns to our clients in a way that aligns with their values and furthers their mission. We achieve this through the following principles.

Act

We act as an agent for 'change' because investment markets can only ever be as healthy as the environment and communities that support them. We do this by:

- using our ownership rights to improve the sustainability of the assets in which we invest
- bringing investors together to address systemic risks that have not had the attention that they require
- seeking to be a catalyst for change in the investment industry.

By helping to accelerate progress in meeting the major sustainability challenges the world faces, we aim to limit risks before they negatively impact upon the performance of our clients' assets and the function of society.

Assess

We assess environmental, social and governance (ESG) standards because we believe that a combination of legislation, regulation and changing societal preferences will impact negatively on the most unsustainable business models.

We avoid investing in companies that have uncompensated, unwanted, unwarranted, and unmitigated ESG risks as evidenced by:

- poor management and weak corporate governance
- having an unacceptable social and environmental impact
- not demonstrating a willingness to improve through investor engagement.

This helps us avoid investments that we anticipate will underperform and, as the market has a poor record of pricing these risks, enable us to deliver superior long-term risk-adjusted returns to our clients.

Align
We invest in a way that is aligned with our clients, as we are the guardians, not the owners, of the assets that we manage. For this reason, we have a responsibility to:

- ensure that our portfolios are aligned with our clients' objectives, values and beliefs
- report on the outcomes of all our work
- be transparent about everything we do on our clients' behalf.

By investing in a way that is aligned with our clients we are better able to meet their objectives and offer more than a financial return.

This is what we call 'Good Investment'.

Our business model
CCLA is the UK's largest manager of charity investments (*Charity Finance* Fund Management Survey November 2022). We have launched the CCLA Better World Global Equity Fund. This is our first offering for UK retail clients and supplements our core business of managing money on behalf of charities, faith organisations and local authorities.

Based in the City of London, with an office in Edinburgh, we are largely owned by our clients' funds. This means that a significant percentage of our dividends are returned to the charitable sector to further their good works.

We managed over £13.6 billion (as at the end of March 2023) on behalf of over 33,000 not-for-profit clients and offer a variety of different investment solutions to meet the needs of our clients. These include:

- multi-asset class pooled funds
- single asset class pooled funds, which cover bonds, cash, equities and property, and may be used alone or in combination usually as part of a client's investment strategy
- managed funds service, that offers clients a portfolio made up of CCLA funds
- segregated investment services for clients where, for various reasons, pooled funds are not appropriate

While our clients are UK based, we are global investors. Our funds and products are managed responsibly and in line with our clients' values.

Activity and outcome

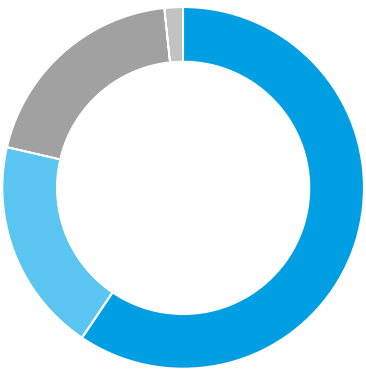
Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship and disclose:

- how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and
- an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

During the reported year, we have continued to implement our Good Investment philosophy into our active ownership activities and our asset selection as follows:

Active ownership
To act as a catalyst for change in our industry, and to maximise our impact, we continued our focus on addressing systemic sustainability issues that have not had the attention from investors that they deserve.

ASSETS UNDER MANAGEMENT



Charities	£8,060m
Churches	£2,613m
Public sector	£2,668m
Retail market	£213m

Source: CCLA, as at 31 March 2023.

This led us to continue to implement our 'flagship' engagement programmes that focus on addressing poor mental health and modern slavery, respectively. A year on from our last report, it is clear that these projects are continuing to deliver change that would not have occurred without CCLA.

This is exemplified by our approach to addressing poor corporate responses to protecting the mental health of their employees. This is based upon the CCLA Corporate Mental Health Benchmark.

This project had been prioritised as we considered it to be a financially material ESG issue, that negatively impacts upon many lives and has not been adequately addressed by existing investor action.

According to a study by Deloitte[1], mental ill health in the workplace costs employers annually an average of £1,652 per private sector employee. For a company employing 10,000 people, that equates to an estimated loss of £16.5 million every year.

More importantly, creating a positive environment for mental health costs much less than failing to do so. In the UK, Deloitte found an average return of £5.30 for every £1 invested in mental health interventions in the workplace. Globally, for every US$1 invested in scaled-up treatment for depression and anxiety, there is a US$4 return in better health and productivity.[2]

Appropriate action by employers not only improves the quality of people's working lives, but it also brings financial benefits at a corporate level, which means that investors stand to gain too.

We started to engage with companies on workplace mental health in early 2019. Following three years of research, data gathering, focused engagement and consultation, we created a new tool, designed to shine a spotlight on corporate mental health practices for the first time.

The CCLA Corporate Mental Health Benchmark is the culmination of sustained collaboration with mental health experts, data providers, charities and listed companies. In May 2022, we launched the UK 100 benchmark, followed by the Global 100 benchmark in October. The companies in the two benchmarks collectively employ more than 24 million people. The benchmarks provide an objective assessment of listed companies employing more than 10,000 people. It does not attempt to gauge the 'happiness level' of a company's workforce. Rather, to evaluate the extent to which employers provide the working conditions under which individuals can thrive, based on a company's public disclosures.

While in their first year, the benchmarks are already having a significant impact on corporate behaviour. For example:

- Amazon. We first contacted Amazon about workplace mental health in March 2022, followed by various emails during the benchmark assessment period over the summer. In December, Amazon responded in writing to the collaborative investor letter. We learned that the company has launched a set of brand-new mental health benefits for employees, their families and households. Employees in the US will have access to additional mental health resources and benefits scheduled. This will scale globally in the months to come. This is now disclosed publicly on the company's website.
- Experian. Experian engaged with us throughout the assessment process. Towards the end of the year, it notified us of a new publication, the Global Approach to Mental Health and Wellbeing, which outlines the company's commitment to mental health. It details the scope, governance and management processes of the global commitment. This represents significant new disclosure by the company, for which we are grateful.

- PepsiCo. PepsiCo responded to the investor letter, acknowledging the importance of mental health to a thriving business and setting out several steps the company takes to support its employees. The letter also included news of new initiatives the company has taken to enhance its approach including new employee engagement.

Allocation of capital

As part of our commitment to investing in sustainable assets and opportunities our clients' portfolios are managed in line with our Climate Change and Investment Policy and our responsible investment approach. For this reason, as of the end-March 2023 our equity portfolios have a carbon footprint, implied temperature rating and climate value-at-risk scores that are considerably below that of the MSCI World Index and better-than-benchmark corporate governance ratings (see page 14 for further details).

In addition to our wider responsible investment approach, the majority of our clients' assets are also managed in accordance with 'values-based investment policies'. These are designed to align our not-for-profit clients' portfolios with their mission. The values-based investment policies set out companies and sectors in which our clients would like to avoid investment and request engagement and 'positive investment' activities. These policies are set following extensive consultation with our clients; in the reporting year this included an analysis of all requests for proposals received by CCLA, client focus groups and an online survey. Investing in line with these policies is a key priority for CCLA and, due to our strong focus, we have not breached any client value policy within the reporting period.

Transparency

We believe in the importance of transparency and publish our voting record and highlights of our engagement programmes on our website every quarter. In addition, every year we release a detailed annual Sustainable Investment Outcomes Report. This sets out our responsible investment policies, how we have performed against them and a progress report on our engagement activities.

Assessment of effectiveness

We believe that our approach to exercising stewardship has effectively met the requirements of our clients. The most recent PRI assessment process was conducted in 2021. The results shared in this report were received prior to the reporting year, however, they remain the most recent PRI assessment results and are therefore included within our response. CCLA received 5 stars, out of 5, for our approach to responsible investment strategy, proxy voting, and ESG integration in listed equity. We received 4 stars for our approach to responsible property investment. In addition, our clients provided positive feedback on CCLA through our online client survey that was conducted during the reporting year. This was responded to by 497 individuals of which 99.2% of people who completed the relevant question stated that they would recommend CCLA to other potential clients.

OUR PRI SCORES

PRI module	CCLA star score	CCLA percentage	Median
Responsible investment policy and process	★★★★★	95%	60%
ESG integration in listed equities	★★★★★	98%	44%
Proxy voting	★★★★★	90%	58%
ESG integration in property	★★★★	82%	69%

Source: PRI Assessment Report 2021.

Resources

During the reporting year, the specialist Sustainability team was comprised of 11 team members. The breakdown of the team, including their seniority, responsibilities, and experience is included in our response to Principle 2 on page 8.

While CCLA has a well-resourced specialist team, we recognise that implementing our approach to stewardship is the responsibility of every member of staff. For this reason, we continued to encourage our investment management and client relationship team members to further develop their stewardship knowledge. This includes providing the opportunity for our investment professionals to study for professional stewardship qualifications and encouraging our staff to attend relevant 'lunch and learn' sessions on sustainability. In addition, the Sustainability team regularly brief the company on their stewardship activities, as part of our weekly 'all staff briefing'. This approach has helped contribute to our strong collegiate corporate culture and our company-wide commitment to stewardship.

As at the 31 March 2023, 42% of our investment and 39% of our client relationship management staff held the CFA ESG Certificate.

Governance

Due to their importance our stewardship activities are prioritised and monitored by CCLA's Investment Committee and an ESG Forum.

We believe that this approach has been effective in discharging our responsibilities to our clients.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Activity and outcome

Signatories to the Stewardship Code should explain how:

- their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach
- they have appropriately resourced stewardship activities, including:
  - their chosen organisational and workforce structures
  - their seniority, experience, qualifications, training and diversity
  - their investment in systems, processes, research and analysis
  - the extent to which service providers were used and the services they provided; and
- performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision making.

Signatories should also disclose:

- how effective their chosen governance structures and processes have been in supporting stewardship
- how they may be improved.

Recognising their importance our stewardship activities are conducted within a strict governance framework.

Oversight
Our sustainable investment policies, processes and activities are approved and overseen by CCLA's Investment Committee, which meets quarterly and is chaired by our Chief Executive.

CCLA's internal audit function reviews areas of the business on a revolving basis. As a consequence, our stewardship activities were not reviewed during the reporting year. They were last reviewed in late 2021 and are scheduled for review in Q4 2023.

In addition to the Investment Committee, quarterly sustainable investment reports are provided to the trustees of our church and charity investment funds and CCLA's board and Executive Committee. CCLA's board has specific responsibilities in regards to monitoring the management of climate-related risk.

Policies and implementation
CCLA's stewardship activity is conducted in line with agreed policies and processes. These include:

- Our Engagement Policy, which sets out our approach to meeting the world's sustainability challenges. This approach includes using our ownership rights to improve the environmental and social performance of the assets in which we invest, bringing investors together to address systemic risks that have not received the attention that they require, and seeking to be a catalyst for change in the investment industry.
- Our Proxy Voting Policy, which sets out our approach to voting our clients' shares in company meetings.
- Our Climate Change and Investment Policy, which sets out our approach to identifying climate risks and opportunities, how this impacts upon our approach to asset selection and how we monitor climate risk.
- Our values-based investment policies. These are incorporated in the scheme particulars of our pooled funds and identify how we tailor the product to meet our clients' values-based needs.

Our performance against these policies is disclosed annually in our Sustainable Investment Outcomes Report.

RESPONSIBLE INVESTMENT POLICY AND PROCESS

Our policies relating to the allocation of capital are supported by dedicated data streams, that are sourced from third parties and/or developed on a bespoke basis in house. These are integrated into our order management system which prevents the purchase of any security that would violate either a client rule or CCLA's approach to integrating sustainability into our investment process.

Our proxy voting and approach to integrating our clients' values into all mandates is monitored by CCLA's risk and compliance team.

Resourcing
We believe that stewardship is the responsibility of all our staff, however our work is led by a well-resourced, specialist, Sustainable Investment team which is headed by the Head of Sustainability. Recognising the importance of sustainability, the team forms one of the three pillars of our investment management function. In addition, alongside the co-Heads of Equity and the Head of Investment Solutions, the Head of Sustainability is a member of the company's Investment Leadership Group.

As at the 31 March 2023, eleven sustainability experts comprised our Sustainability team, of which six had experience in the sustainable finance industry of more than 10 years.

The team members have differing educational backgrounds, a variety of academic and professional qualifications including PhDs and CISI certificates and 36% male, 64% female gender diversity.

To supplement this experience team members will sit the CFA ESG Certificate in 2023/2024 or the CFA Climate Investing Certificate.

Systems, process, research and analysis
To aid their implementation, CCLA's sustainable finance rules are supported by data streams from external providers. These are set out in the table on the next page.

We regularly communicate with our data providers so that they are aware of the purposes for which we use their data, to inform them of any data accuracy concerns that we might have and/or to help them further develop their products.

Rewards and incentives
Stewardship is included into the competency assessments of investment management staff. However, variable pay is provided on a discretionary basis and is not allocated subject to fixed key performance indicators. We believe this enables us to reward our staff for their wider contribution to the company culture and meeting our clients' objectives.

Assessment of effectiveness
We believe that our stewardship governance framework effectively meets the needs of our clients. Our responsible investment strategy and governance was awarded 5 stars in the most recent PRI Assessment (conducted in 2021). However, we recognise that further improvements are required to our approach to the verification of stewardship data, as set out in Principle 5.

Investment Leadership Group

Ben Funnell	Charlotte Ryland and James Ayre	James Corah
Solutions	**Investments**	**Sustainability**
Strategic asset allocation, alternatives, property, fixed income, cash and risk management	Core investment engine, analysing global equities	ESG integration Active stewardship
12 team members	13 team members	11 team members

Source: CCLA, as at March 2023. James Ayre resigned from CCLA during May 2023.

SUSTAINABLE INVESTMENT DATA POINTS

Category	Data point	Comment	Use
Ethical screening	MSCI Business Involvement Screening Research (BISR)	This is a suite of data identifying companies' involvement in activities restricted by our clients.	The data is programmed into our order management system (OMS) to support compliance with the relevant portfolio's ethical screens.
	Sustainalytics	Additional ethical screening data, covering companies' involvement in controversial weapons.	The data supplements MSCI BISR to identify companies that are linked through ownership to providers of controversial weapons. It is programmed into the OMS.
	Urgewald	Additional ethical screening data covering companies' involvement in climate change related activities specifically based on gas extraction and coal fired power stations.	The data is programmed into our OMS to support compliance with CCLA's Climate Change and Investment Policy.
International norms	MSCI Controversies	MSCI Controversies reviews media reports of company activities to identify any breaches of internationally recognised standards.	This is used by CCLA to monitor portfolio companies' position against the UN Global Compact. Companies identified as having the most serious controversies are entered into a time-limited engagement programme that, if progress is not made, can lead to divestment.
Climate change and investment	MSCI Carbon Portfolio Analytics	Data to identify companies' carbon intensity and to calculate the Scope 1 and 2 carbon footprint of CCLA portfolios.	This is used to implement a maximum portfolio carbon footprint as mandated by our commitment to achieve net-zero emission portfolios by 2050.
		Data to analyse companies' decarbonisation plans against the necessary net zero pathway for their sector.	This is used to inform CCLA's assessment of electrical utility and energy companies' position against the Paris Agreement. Non-aligned companies are restricted from investment on a 'comply/approve' basis. This means that companies that do not meet the necessary standard are only admitted to a CCLA-managed portfolio following the approval of the Investment Committee.
Corporate governance	Credit Suisse Holt and MSCI Governance Metrics	Data used as part of CCLA's corporate governance rating system. This provides 9,000 companies with an A (best-in-class) – F (worst) corporate governance rating. Companies rated E and F are restricted from investment on the same 'comply/approve' basis set out above.	
	ISS	Proxy voting research.	ISS support CCLA's proxy voting by researching meeting resolutions against our bespoke voting policy. Suggested vote outcomes are checked by CCLA prior to lodging a vote.
Sustainability	MSCI ESG Ratings	ESG data covering a wide range of ESG issues that are considered in CCLA's investment approach.	The data is utilised to implement CCLA's 'comply/approve' restriction (implemented on the same basis set out above) on companies lowest 2 ESG ratings (B and CCC) and to assist equity and fixed income analysts integrate ESG into security valuation.
	SASB Materiality Index	Identify financially material sustainability risks in given industry.	Integration of financially material sustainability risks into the financial review and appraisal of existing and potential new listed equity investments.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

Signatories to the Stewardship Code should disclose their conflicts of interest policy and how this has been applied to stewardship.

Activities at CCLA are subject to our company-wide Conflicts of Interests Policy. This notes that conflicts can take different forms such as favouring one client over another, favouring a staff member over a client and/or favouring our shareholders over a client. For this reason, we have established an approach so that CCLA, and its staff members, act in the best interests of its funds, its investors and/or its potential investors. This approach includes:

- identifying and managing conflicts
- conflict monitoring through internal audit reviews, risk assessments and compliance monitoring reviews
- education and awareness, which is provided via a Compliance induction and set out in our compliance manual and associated policies, including personal account dealing and gifts, benefits and inducements
- conflicts disclosures to clients.

In addition to our general approach, we recognise that stewardship activities can give rise to some specific actual or potential conflicts of interest. For this reason, we have established policies and oversight for stewardship activity that are included in our Engagement Policy.

Our stewardship work is delivered in the interests of all of our clients. In developing and delivering stewardship programmes we attempt to not unduly prioritise the needs of any single client group and ensure that our priorities are not influenced by the outside interests of any CCLA employee, or other stakeholder.

For example, proxy voting is conducted by the Sustainability team in line with an agreed Proxy Voting Policy. Any deviation from the policy requires the approval of a second member of staff.

In addition, our stewardship work is prioritised and overseen by the Investment Committee. Further information about our approach to managing the conflicts of interest arising through our stewardship programme is available in our Engagement Policy.

Activity and outcome

> Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship. Signatories should also disclose how they have addressed actual or potential conflicts.

Despite our best efforts, we recognise that conflicts of interest can arise in our day-to-day stewardship activity. We have not identified any specific conflicts in the reporting period, however, we are aware that potential conflicts can include, but are not limited to, the following:

- A client's 'values-based investment policy' affecting investment performance.
- Voting on the appointment of a company director with whom CCLA has an existing commercial or other significant relationship. For this reason, any deviation from our standard voting policy requires the approval of a second member of the Sustainability team.
- CCLA portfolios holding the shares of the different companies involved in proposed merger and acquisition activity. This is unlikely as CCLA only manages a single listed equity strategy. However, we are able to vote different portfolios in different ways to reflect differing client requirements.
- Our clients having different views and priorities for engagement. For this reason, our stewardship programme is approved and monitored by the Investment Committee.

By implementing the governance framework, identified above, we are confident that we have a robust approach to managing these conflicts so that they do not negatively impact upon our clients and their beneficiaries.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity and outcome

Signatories should explain:

- how they have identified and responded to market-wide and systemic risk(s), as appropriate
- how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets
- the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples
- how they have aligned their investments accordingly.

We realise that some of the key environmental and social challenges facing the medium to long term performance of our clients' investments are systemic and cannot be eliminated through diversification. We also recognise that, despite their impact, the investment industry has a poor track record on addressing systemic risks. For this reason, we seek to be a catalyst for positive systemic change and have a long track record on developing engagement initiatives that focus investor action on risks that have not been adequately addressed by the market. We also recognise that regulation and legislation are key tools in managing systemic sustainability risks. For this reason, we believe that we have a responsibility to work with public policy makers to push for progressive frameworks that accelerate positive change.

Our engagement prioritisation process is overseen by the Investment Committee and seeks to do the following.

- Identify systemic risks and evaluate the extent to which these pose a threat to the value of our clients' portfolios. This is delivered through an informal process that includes reviewing materials such as the World Economic Forum's annual Risks Report and our clients' responsible investment priorities as we believe that these can act as an early indicator as to future issues of interest.
- Review existing investor action and CCLA's existing knowledge and expertise of the issue. We recognise that the investment industry has increasingly focused on responsible investment and, for this reason, want CCLA's activity to be additive to, rather than replicative of, existing efforts. For this reason, before prioritising an issue we consider the extent to which it would be possible for us to act as a catalyst for further action.

On the back of this assessment, we prioritise a small number of issues for significant action. During the reporting year we have sought to work systemically to address challenges by climate change, promote better standards of mental health and work to increase the effectiveness of corporate actions on modern slavery.

Regarding climate change, we believe that unaddressed, anthropogenic global warming poses a systemic risk to the planet, our communities and the functioning of economic markets. For this reason, seeking to accelerate the transition to a net-zero economy is a key priority. Our approach to addressing this systemic threat incorporates the following.

- Public policy engagement, to help support the creation of regulatory frameworks that will accelerate the transition. During the past 12 months, our focus has, once again, been upon supporting the UK and Canadian governments in the delivery of the Powering Past Coal Alliance. This seeks to facilitate the phasing out of unabated coal fired electricity generation from the world's energy mix. CCLA helped to create the initiative's 'Finance Principles' which are now supported by 33 investors including Abrdn, Legal and General and the Church of England National Investing Bodies (Source: UK Government, Powering Past Coal Alliance).
- Engaging directly with our investee companies, to encourage them to minimise their negative climate footprint and manage climate-related risks to their business. To increase its effectiveness, the majority of our direct climate engagement has been conducted through the collaborative Climate Action 100+ initiative, that is supported by investors with combined investment assets of over $68trillion. Recognising CCLA's specialism in climate engagement, we lead (or co-lead) engagement with a number of companies on behalf of the wider initiative.
- Altering our investment approach, to improve the resilience of our clients' portfolios. We recognise that, while the majority of climate change related impacts will affect the performance of markets as a whole some sectors and companies will be disproportionately affected. For this reason, our portfolios are managed to low relative carbon footprints and have – due to our concerns about the valuations of the companies in light of the energy transition – currently zero direct exposure to companies that focus (defined by a revenue threshold) on the extraction and refining of coal, oil or gas.

We remain concerned about the slow pace of the transition to a low-carbon economy and the impact that this could have on the long-term performance of our clients' assets. For this reason, we will continue to prioritise this aspect of our work and will seek new ways that we could contribute to accelerating climate action.

While impactful, we recognise that we need to further resource our climate change engagement activities. For this reason, we appointed an experienced stewardship professional to lead our 'better environment' programme.

Our other major initiatives, to address workplace wellbeing and modern slavery, are detailed elsewhere in this response.

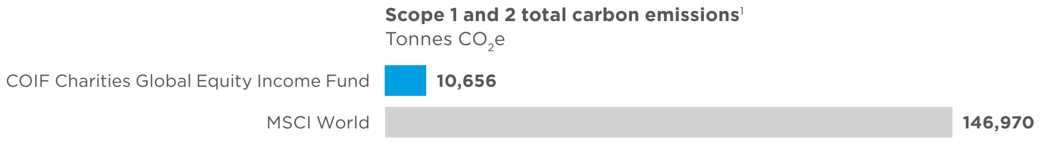
Climate risk ratings for our portfolios
We believe that companies that fall behind the transition to a net-zero economy will be disrupted by changing legislation, regulation and consumer preferences. In order to add to the resilience of our portfolios, we are signatories to the Net Zero Asset Managers initiative and routinely monitor our investee companies' carbon footprints and have set a decreasing maximum portfolio carbon ceiling for our listed equity portfolios.

Due to data limitations, this currently only covers the Scope 1 and 2 footprints of our listed equity holdings.

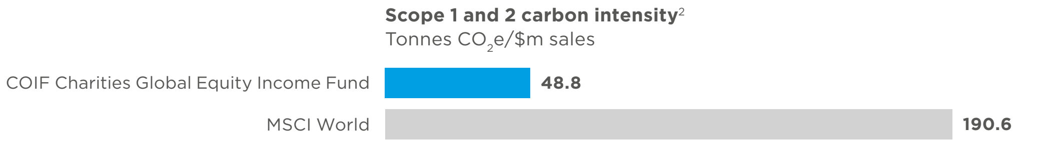
EXAMPLE OF CLIMATE RISK RATINGS

Data is provided for the COIF Global Equity Income Fund throughout the response as an example of our equity investment strategy.

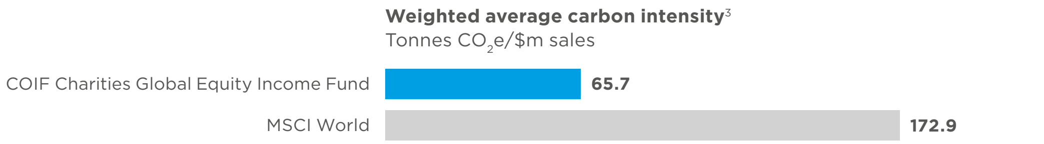
What is the portfolio's total carbon emissions?



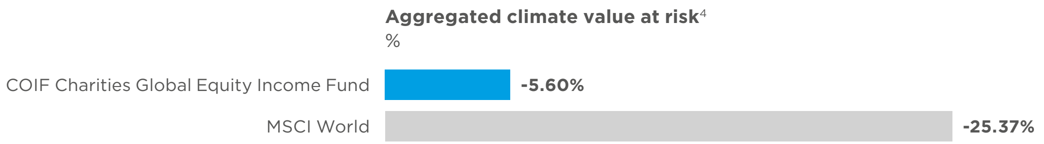
How efficient is the portfolio in terms of carbon emissions per unit of output?



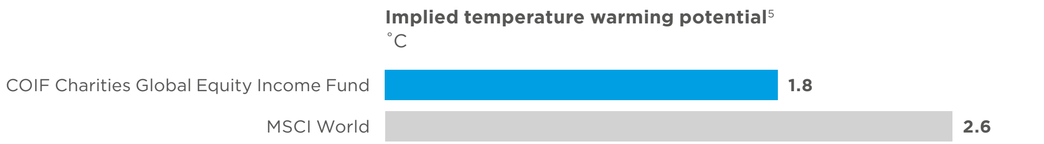
What is the portfolio's exposure to carbon-intensive companies?



What percentage of the portfolio's value is at risk due to climate change and the transition to a net-zero economy?



How aligned is the portfolio to global climate targets?



Source: MSCI ESG Carbon Footprint Calculator, as at 31 March 2023.

1 Measures the total carbon emissions for which an investor is responsible by their equity ownership. Emissions are apportioned based on equity ownership (i.e. percentage of market capitalisation).
2 Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their equity ownership. Emissions and sales are apportioned based on equity ownership (i.e. percentage of market capitalisation).
3 Measures a portfolio's exposure to carbon intensive companies, defined as the portfolio weighted average of companies' carbon Intensity (emissions/sales).
4 The aggregated climate value-at-risk score assesses the potential percentage of the portfolio's value that is put at risk by policy and physical risks associated with climate change and the transition to a net-zero economy. The policy risk score is based on the Remind 1.5°C (orderly) Warming Scenario, which assumes that global legislators will introduce policies that limit temperature rises to 1.5°C. The physical risk score is set to aggressive, it thus identifies the cost of the most impactful physical climate change risks
5 The temperature gauge illustrates a portfolio's aggregated warming potential, with the decarbonisation targets that constituent companies have set taken into account.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity and outcome

Signatories to the Stewardship Code should explain:

- how they have reviewed their policies to ensure they enable effective stewardship
- what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach
- how they have ensured their stewardship reporting is fair, balanced and understandable.

Signatories should also explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.

Our stewardship approach is subject to strict internal governance and a process of continual improvement to enable it to be as effective as possible.

CCLA's Investment Committee oversees and evaluates the effectiveness of all our stewardship activity. Should any aspect of our stewardship programme not achieve the intended result it is subject to review, reassessment and reformulation.

To provide further reassurance, we employed specialist consultancy, Chronos Sustainability, to provide an external review of our annual PRI assessment process submission. This allows us to identify further areas that require improvement and development. This process identified the need to further develop our approach to reviewing and recording our assessment of the financial materiality of ESG issues in our listed equity investment approach and to further articulate our 'theory of change'.

To address these points during the year we integrated sector-specific sustainability issues identified by the Sustainability Accounting Standards Board (SASB) into our ESG integration process for equity holdings; and developed a monitoring evaluation and learning framework to assess progress towards meeting our engagement aims with our three 'better world' workstreams of: 'better work', 'better health' and 'better environment'.

We recognise the need to further increase oversight and authentication of our stewardship data. During 2023/24 we will seek to expand the existing internal review, that focuses on proxy voting, to all aspects of our active ownership work. This should provide clients with further confidence on the effectiveness of our engagement activities.

5

ESG INTEGRATION IN LISTED EQUITIES

Investment approach

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

Signatories to the Stewardship Code should disclose:

- The approximate breakdown of:
  - their client base, for example, institutional versus retail, and geographic distribution
  - assets under management across asset classes and geographies
- the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why.

CCLA is the UK's largest manager of charity investments (*Charity Finance* Fund Management Surveys November 2021 and 2022). Managing investments for charities, religious organisations and the public sector is what we do. We only distribute products and services within the United Kingdom. At the end of the reporting year, we managed over £13.6 billion on behalf of over 33,000 not-for-profit organisations, and, following the launch of the Better World Global Equity Fund, a number of private investors.

The majority of our clients invest via one or more of our specialist pooled funds. These include four multi-asset pooled funds, and specialist funds covering global equities, UK equity, fixed income, property and cash.

As charities, the majority of our clients have long-term time horizons for their risk assets, so we manage their funds to maximise long-term invested value. This means that we analyse investee companies over a long-term time period and have low portfolio turnover[3].

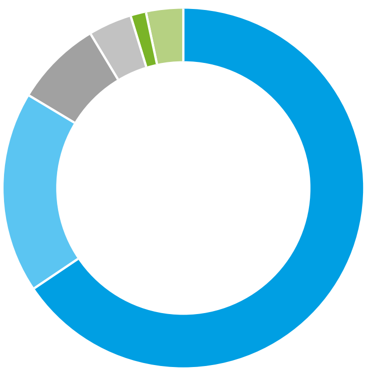
We also recognise that some of our clients are permanently endowed and will, therefore, face a number of risks that are not realised in conventional investment time horizons. For this reason, we place significant emphasis on pushing for progress in addressing systemic threats to the functioning of investment markets. This allows us to contribute to controlling risks, before they affect the value of our clients' assets.

ASSETS UNDER MANAGEMENT

Asset class	Percentage of AUM
Listed equities	48.14
Fixed income	1.72
Private equity	1.73
Real estate	15.40
Infrastructure	5.54
Hedge funds	0
Forestry	0
Farmland	0
Money market funds	27.47
Total	**100**

Source: CCLA, as at 31 March 2023.

GEOGRAPHIC LOCATION OF LISTED EQUITY HOLDINGS



North America	65.61
Developed Europe	18.20
United Kingdom	7.83
Asia (ex Japan)	3.65
Japan	1.38
Other countries	3.33

Source: CCLA, as at 31 March 2023.

Activity and outcome

Signatories should explain:

- how they have sought and received clients' views and the reason for their chosen approach
- how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon.

Signatories should also explain:

- how they have taken account of the views of clients and what actions they have taken as a result
- where their managers have not followed their stewardship and investment policies, and the reason for this.

As guardians, and not the owners, of the assets we manage on behalf of our clients we recognise that we have a responsibility to ensure their portfolios are aligned with their objectives, values and beliefs, to report on the outcomes and impact of all our sustainable investment work and to be transparent about everything that we do on our clients' behalf.

In order to ensure that our charity clients' assets are managed in line with their values we have previously invite our pooled fund charity clients to participate in a thorough consultation process every three or four years. The current consultation was completed at the end of February 2023 and included formally for the first time included comment from both our charity and church clients. Our aim was to understand any changes in their views on sustainable investment and ensure that our products are aligned with our clients' values.

All institutional clients were invited to participate in the consultation and there were two primary ways of doing so. Firstly 15 focus groups were held which were attended by over 140 different clients. Most of these sessions were open to the range of charity, local authority and faith clients but some were designed for specific subsets of our client base. Secondly a detailed online survey was available which received 485 responses from clients.

In between client consultations we monitor our clients' values-based investment priorities, and our effectiveness in meeting them, through the following approaches:

- CCLA's church, charity and local authority funds each benefit from their own oversight boards and committees that meet quarterly to oversee and advise on CCLA's management of the funds.
- The COIF Charities Ethical Investment Fund and the Catholic Investment Fund have client advisory committees. These meet twice per year and cover CCLA's implementation of the 'values-based' investment policies and identify any issues that require attention.
- The CBF Church of England Funds benefit from the work of the Church of England's Ethical Investment Advisory Group (EIAG). This meets regularly to develop values-based investment policies that reflect the unitholders' religious beliefs. During the reporting year, the EIAG published new advice on 'Big Tech'.
- Our relationship management team regularly meet with clients to discuss our service including our approach to stewardship. Feedback is systematically shared to ensure that any concerns identified by the client are addressed as appropriate.

In aggregate, these processes enable us to set 'values-based' investment policies for our funds. These are listed in the scheme particulars (or, in the case of segregated clients, their investment management agreement), and coded into our order management system to enable them to be properly implemented in our investment process.

This approach is led by our specialist Sustainability team, and we have not identified any breaches of any of our pooled fund or segregated client policies over the reporting period.

We seek to be transparent about everything that we do and report on the outcomes and impact of our sustainable investment work. We publish our proxy voting record and key engagement highlights on our website every quarter. We also produce a detailed, but easily accessible, annual Sustainable Investment Outcomes Report. This incorporates fund composition, our stewardship policies and processes and a progress report for all ongoing engagements.

We believe that this approach has been effective in enabling our products and services to continue to meet the needs of our client base.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

Signatories to the Stewardship Code should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

We believe that a combination of legislation, regulation and changing societal preferences will inevitably impact negatively on the cash flow of the most unsustainable business models. For this reason, we avoid investing in companies that have uncompensated, unwanted, unwarranted, and unmitigated ESG risks as evidenced by:

- poor management and weak corporate governance.
- having an unacceptable social and environmental impact.
- not demonstrating a willingness to improve through investor engagement.

This helps us avoid investments that we anticipate will underperform and, as the market has a poor record of pricing these risks, should enable us to deliver superior long-term risk adjusted returns to our clients.

Prior to purchase, we assess companies' ESG risks in conjunction with their financial position. This approach applies to all listed equities irrespective of their geography or sector, and includes the following.

- Corporate governance. We have developed a bespoke quantitative corporate governance rating tool which assesses companies' board structure, ownership, accounting practices and management capabilities. Supported by a qualitative review process this allows us to identify any strengths and weaknesses in their governance structure and how these adapt over the life of the holding.
- Climate change. All assets are managed in line with CCLA's Climate Change and Investment Policy. This requires CCLA to annually review the impact of climate change, and the associated transition to a net-zero economy, on every sector and to stress test carbon intensive businesses' decarbonisation plans against the requirements of the Paris Climate Change Agreement.
- Wider sustainability factors. Potential investee companies are reviewed regularly against sector-specific sustainability issues identified by the Sustainability Accounting Standards Board (SASB). SASB Standards identify the subset of environmental, social and governance issues most relevant to financial performance and enterprise value for each of the 77 industries.
- Corporate behaviour and standards. Assets are reviewed against any sustainability related controversies that the company has been involved in.

ESG INTEGRATION IN PROPERTY

Where we identify material concerns, we conduct a fact-finding meeting with management. Subject to the success, or otherwise, of this meeting companies can be approved for purchase, prioritised for ongoing engagement, or removed from our investment universe.

Following purchase, monitoring our investee companies is a routine part of CCLA's investment approach. Our specialist Sustainability team continually monitors investee companies' approach to managing ESG risk. We recognise that not all sustainability issues are financially material within conventional investment time horizons. We expect that regulation, legislation and changing consumer preferences will increasingly embrace the importance of sustainability. Businesses involved in the most unsustainable activities are likely, over time, to be penalised. For this reason, we also assess companies' impact on the real world. This is based on four themes:

- better work – labour standards and human rights
- better health – encouraging high standards of health and wellbeing
- better environment – climate change and the environment
- better governance.

Taken together, this analysis allows us to identify, and remove from our investment universe, the most unsustainable businesses and develop appropriate engagement action plans to help the other businesses to move forward. Our ESG analysis does not end once an investment has been made. Companies' ESG characteristics are routinely reviewed to ensure that standards do not slip. For those companies with an engagement action plan, progress is closely monitored. We reconsider investment in companies if they refuse to engage or do not respond adequately to engagement on the most serious issues.

Recognising their different requirements, we have developed specialist processes for integrating ESG factors into our directly managed money market and property funds.

To facilitate the integration of ESG issues, and to prioritise engagement, we have developed a bespoke assessment framework for counterparties used for our money market funds. As a minimum we consider the following: its corporate governance practices, its approach to financing climate change and any controversies with which it has been associated. In 2018, CCLA suspended Danske Bank as a counterparty following the bank's money laundering issues in the Baltic state and other failures in internal control. Following a four-year monitoring and engagement programme with Danske Bank, the bank was approved as a counterparty during the reporting period.

For our property funds, we seek to integrate sustainability into our asset selection, management and refurbishment processes. Due to the nature of the asset class, we are rely on our tenants and our third-party managing agents to collect and communicate appropriate data on the performance of our buildings to allow us to set targets and measure progress against our responsible investment goals. This has been a substantial barrier to further developing our responsible property investment process and is a key driver of our low Global Real Estate Sustainability Benchmark (GRESB) Score. Following the year end, EVORA Global Limited has been appointed to assist in the further development and implementation of our approach to sustainability in property including the expansion of asset level action plans and portfolio risk management.

Activity and outcome

Signatories should explain:

- how integration of stewardship and investment has differed for funds, asset classes and geographies
- the processes they have used to:
  - integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries
  - ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues.

Signatories should also explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries.

Responsible investment is at the centre of our investment process, so we implement the same approach to considering extra-financial and other ESG risks across CCLA-managed portfolios, and have developed specialist approaches in other asset classes including property and money market funds.

Our portfolios are managed in line with our Climate Change and Investment Policy, our approach to respecting human rights, and according to detailed guidelines for considering wider sustainability factors which, due to their differing materiality, vary on a sector-by-sector basis. For this reason, CCLA equity portfolios display common characteristics such as low Scope 1 and 2 carbon footprints, better-than-benchmark corporate governance ratings and AAA MSCI ESG Fund Ratings.[4]

MSCI ESG PORTFOLIO SCORES

Fund name	Rating	Score
CCLA Better World Global Equity Fund	AAA	9.19
Catholic Investment Fund	AAA	8.97
CBF Church of England Investment Fund	AAA	9.38
COIF Charities Ethical Investment Fund	AAA	9.29
COIF Charities Investment Fund	AAA	9.34

Source: MSCI, as at March 2023.

CORPORATE GOVERNANCE RATING

In order to understand the quality of companies' corporate governance, CCLA has created a corporate governance assessment tool that ranks companies' corporate governance on a scale from A (best) to F (worst). We use this process to identify and remove companies with high governance risk from our investment universe, detailed above. As a result, our portfolios are biased against companies with low corporate governance ratings. This table sets out the composition of our COIF Charities Global Equity Income Fund against our governance ratings.

	A	B	C	D	E	F	High risk (E+F)
MSCI World Index	5.83%	16.93%	34.41%	28.31%	10.69%	3.84%	14.53%
COIF Charities Global Equity Income Fund	2.56%	16.67%	44.87%	24.36%	8.97%	2.56%	11.54%

Source: CCLA, as at 31 March 2023.

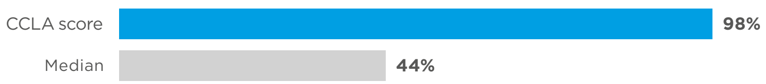
PRI EVALUATION

The PRI report evaluates signatories at how they are incorporating ESG factors into investment decisions. CCLA was awarded 5 out of 5 stars for our approach to integrating ESG factors into listed equity investment and 4 out of 5 stars for responsible property investment.

We disclose our full PRI Assessment Report on our website.

Responsible investment policy and process

ESG integration in listed equities



Proxy voting

ESG integration in property

Source: PRI Assessment Report 2021.

In addition to our 'house' approach, the majority of our clients have adopted additional 'values-based' investment requirements. Reflecting the different priorities of our client base these policies vary from fund to fund and are designed to meet the requirements of the underlying client base. For example, we offer four versions of our Multi-Asset 'Investment Fund' for charities. These follow the same investment and stewardship approaches (including a commitment to integrating ESG and driving change through active ownership) but implement different values-based investment policies as follows:

- All CBF Church of England Funds follow the ethical investment policies of the Church's National Investment Bodies and the guidance of the Church of England's Ethical Investment Advisory Group.
- The COIF Charities Investment Fund offers a solution to charities that seek a smaller number of 'values-based' constraints that focus on restricting investment in a small number of business activities that pose a significant reputational risk to charities.
- The COIF Charities Ethical Investment Fund implements a more wide-ranging set of ethical restrictions to meet the needs of religious and more reputationally exposed charities.
- The Catholic Investment Fund implements a values-based investment policy that is designed to reflect the mission, values and teachings of the Catholic Church.

With the exception of the CBF Church of England funds, which are only open to charities associated with the Church of England, CCLA's charity clients are able to select the fund that they believe best reflects their values-based investment requirements.

The CCLA Better World Global Equity Fund is available for investment through a variety of investment platforms, independent advisers and intermediaries. This fund is suitable for all types of investors, with basic investment knowledge, seeking to invest in an actively managed fund pursuing the investment objective and policy of the fund. The fund operates a wide range of restrictions and closely follows the recommendations of the CBF Investment Fund.

Due to the high levels of commonality between CCLA portfolios, the vast majority of our engagement activities are conducted on behalf of all of our clients. As stewardship is a routine part of our investment process, engagement meetings are conducted in partnership between portfolio managers, analysts and our sustainability specialists. In addition, response to engagement is shared in our Investment Committee and ESG Forum.

In extremis, poor responses to engagement can, and have, led to divestment or reducing the weight of a holding. However, there were no examples of divestment due to poor engagement during the reporting period.

We recognise that, as many of our clients are permanently endowed, their term horizon includes sustainability risks that are not possible to manage within portfolio construction. For this reason, we prioritise engagement to address long-term, systemic, challenges that we believe, if unmanaged, will impact upon the functioning of markets or the value of our clients' investments.

Our approach to communicating and monitoring service providers is included in our answer to Principle 8.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Activity and outcome

Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.

Signatories should also explain:

- how the services have been delivered to meet their needs

OR

- the action they have taken where signatories' expectations of their managers and/or service providers have not been met.

As stewardship is at the centre of our investment process, we conduct the majority of our activities directly and do not use external engagement providers. We do, however, use third parties to manage asset classes, such as private equity and infrastructure, that we do not have the expertise to manage in-house. We also use ISS, a proxy voting agency, to administer our proxy voting activity.

We have developed a rigorous approach to ensuring that our clients' funds that are managed on our behalf by third parties comply with our values-based investment policies. Our starting point is to seek to enter into a legal agreement with the relevant investment manager, precluding investment in restricted entities. If this is not possible, we enter into ongoing dialogue with the manager and conduct a review of their exposure. Should their exposure to restricted activity be equal to, or more than, 10% of the fund's capital we do not invest or, if we have already invested, seek to divest. Our full approach to third-party funds is set out in our Values-Based Screening Policy.

On behalf of our clients, CCLA is afforded rights to vote at company meetings held by the investee businesses in our portfolio. Due to the in-depth knowledge that is needed to lodge appropriate votes we have employed an external agency to work on our behalf. ISS, our current provider, research resolutions at company meetings against CCLA's bespoke proxy voting policy. To provide adequate oversight, resolutions are reviewed by CCLA prior to any vote being filed. While we believe that ISS are providing a good level of service, we have identified a small number of instances where our vote guidelines had been incorrectly applied. When this occurs, we inform ISS so as to minimise the risk that similar mistakes are not made in the future. Our full approach to voting is set out in our response to Principle 12.

In addition, third-party data providers are used to guide and inform our work. Our sustainability data providers currently include ISS, MSCI, UBS (following its acquisition of Credit Suisse) and Sustainalytics. We routinely review the data provided to us and engage directly with our providers when we identify errors within their provision. To benefit from the best possible data, we meet our main data providers to discuss any issues that we have identified. In addition, we keep our providers under constant review and formally re-tender for their services regularly.

Sub-advisement

During the period, Federated Hermes Limited was appointed as the portfolio manager for CCLA's fixed income funds: the CBF Church of England Fixed Interest Securities Fund and the COIF Charities Fixed Interest Fund. Client relationship management, oversight and fund administration and determining the funds' investment exclusions policy remains the responsibility of CCLA. As part of the mandate, Federated Hermes embed forward-looking sustainability appraisals into their investment process using its proprietary framework which assesses sustainability and ESG factors of a company, including progress and impact towards decarbonisation, within the investment limitations established by CCLA. A list of restrictions applied to the fixed income funds can be found on the CCLA website.[5]

Both Investment Solutions and Sustainability team members were included in the selection, appointment and monitoring of Federated Hermes.

CCLA meets with the team at Federated Hermes formally on a quarterly basis and stewardship is included as a regular agenda item. Topics covered included individual investments and ESG capacity (covering staffing, systems and data suppliers). In addition to the formal quarterly meetings the Sustainability team meets with Federated Hermes to discuss individual stocks.

Engagement

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Activity and outcome

Signatories should explain:

- the expectations they have set for others that engage on their behalf and how

OR

- how they have selected and prioritised engagement (for example, key issues and/or size of holding)
- how they have developed well-informed and precise objectives for engagement with examples
- what methods of engagement and the extent to which they have been used
- the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6; and how engagement has differed for funds, assets or geographies.

We recognise that investment markets, and the returns delivered by the assets traded upon them, can only be as healthy as the communities and the environment that support them. For this reason, we believe that delivering long-term investment returns to our clients requires us to push for progress in meeting the world's sustainability challenges. We do this by bringing investors together to address systemic risks that have not had the attention that they require (as explained in our response to Principle 4), using our ownership rights to improve the sustainability of the assets in which we invest and seeking to be a catalyst for positive change in the investment industry.

We seek to engage with every equity holding at least once per year and have targeted engagement plans for any asset where we have specific concerns about strategy, capital structure, governance or the potential for negative environmental or social impact. Our approach is the same irrespective of the company's sector or geography of listing. We believe that engagement is most effective when it is conducted in the spirit of constructive partnership between the investor and a company's management team. We seek to support the companies in which we invest on behalf of our clients, however, we recognise that our dialogues with companies cannot be open-ended. Engagement progress is monitored routinely and, if not sufficient, can lead to an escalation in our concern and eventually lead to divestment.

Our focus during the year has been on:

- continuing to encourage businesses to increase the effectiveness of their actions to counter modern slavery
- seeking to protect vulnerable workers through the cost-of-living crisis
- pushing for a better way to look after the mental health of workers
- playing our role in accelerating the transition to a net-zero emission economy.

OUR HIGHEST ENGAGEMENT PRIORITIES DURING 2022/23

April 22
- Worked with Development International and Sustain Worldwide to analyse the 2021 modern slavery statements of the FTSE 100 companies.
- CCLA's Helen Wildsmith joined the Delivery Group of the government's UK Transition Plan Taskforce for climate transition plan.

May 22
- Launched the inaugural Corporate Mental Health Benchmark – UK 100. This rates 100 UK listed companies on their approach to protecting employees' mental health.
- Met Department for Environment, Food and Rural Affairs (Defra) for a second time as part of the Investor Coalition on UK Food Policy.
- Following successful engagement on nutrition with Unilever, attended the company's AGM and read out a statement on company progress.

June 22
- Published a global investor statement on workplace mental health with 29 founding signatories.

July 22
- Wrote to the CEOs of 100 UK-listed companies about their approach to workplace mental health, supported by $7 trillion investor coalition.

August 22
- Joined Ceres' new Banks Working Group to push banks to adopt more ambitious climate change commitments.

September 22
- Modern slavery engagement initiated with 17 construction companies, supported by 15 investors, as part of the Find it, Fix it, Prevent it initiative.
- CCLA and the Church Investors Group wrote to the 100 largest publicly listed employers in the UK, asking them to protect vulnerable employees from the-cost-of-living crisis.

October 22
- Launched the Corporate Mental Health Benchmark – Global 100. This rates 100 of the world's largest companies on their approach to workplace mental health.
- Published an investor statement on the UK's cost-of-living crisis, signed by 17 investors.

November 22
- Wrote to the CEOs of the companies in the Global 100 benchmark regarding workplace mental health, supported by $7.0 trillion investor coalition.
- Engagement with Abbott Laboratories escalated to board level following concerns about its approach to the manufacture and retail of infant formula milk.

December 22
- Initiated an investor statement to push businesses and government to rectify failings in the Seasonal Workers' scheme.
- Co-filed a shareholder resolution at Amazon calling for improvements on their approach to workers' freedom of association and collective bargaining rights.
- Co-filed a shareholder resolution at Bank of America on climate transition plans.

January 23
- Continuing engagement with NextEra following the filing of shareholder resolution in December. Company agreed to improve reporting and negotiated a withdrawal of the resolution.

February 23
- Unilever and Rio Tinto CA100+ meetings to discuss climate transition.

March 23
- UK Mental Health Benchmarks completed.
- Letters sent to two ministers at Defra and Department of Health and Social Care (DHSC) on food policy in UK. Recipients are Rt Hon Thérèse Coffey MP (Secretary of State for Environment, Food and Rural Affairs) and the Rt Hon Steve Barclay MP (Secretary of State for Health and Social Care). We reiterated the investor case for mandatory reporting on nutrition and our support for the Food Data Transparency Partnership.[6]

In total, across all of our engagement programmes, that are conducted by us for either CCLA, our collaborative engagement partners, or the Church Investors Group we have engaged with 478 companies over the reporting period. Consistent with our approach that we wish to influence the wider market, not just our portfolio holdings, 398 of the companies engaged with were not CCLA equity holdings. These figures do not include communication around proxy voting activity.

Our approach includes direct and collaborative engagement with issuers:

- Routine proxy voting, with all holdings. Voting is conducted in line with our proxy voting policy and reflects our wider stewardship priorities. To increase the impact of our votes we write to the company to inform them of our intentions. For a small number of very low risk businesses, this is our only formal engagement contact during the year.
- Remote dialogue with companies, we believe in the power of ongoing dialogue with businesses. For this reason, we have ongoing remote engagement that is conducted via letter, email and phone calls, with specialists in the companies in which we invest.
- In-person meetings with management and board members and site visits.
- Shareholder resolutions and attending AGMs. Where required, we are happy to escalate our engagement by attending AGMs to ask questions of management in public and/or filing shareholder resolutions.

SUCCESSFUL ENGAGEMENT: COMPASS GROUP ON MODERN SLAVERY

Background
Compass Group is one of the largest contract foodservice providers in the world. We prioritised engagement with the company as part of the 'Find It, Fix It, Prevent It' initiative. This encourages businesses to contribute to the fight against modern slavery by working to 'find' and then 'fix' instances of forced labour within their direct operations and supply chain.

Status: successful engagement
After engagement, focused on a joint venture in the Gulf with Abu Dhabi. Compass conducted a detailed external audit of migrant worker sourcing practices into the Gulf. Findings are detailed in latest modern slavery statement and the company has begun to document the provision of remedy to impacted workers. We applaud Compass for their work on this issue.

SUCCESSFUL ENGAGEMENT: NEXTERA

Background
Based in the US, NextEra is one of the world's largest generators of renewable energy.

Despite its leadership in the generation of clean energy, the company has historically lagged peers in climate-related disclosure. CCLA co-filed a shareholder resolution calling for progress, and this was successfully withdrawn in 2021 once we had received a commitment that the company would report to CDP, thereby aligning with the recommendations of the G20's Task Force on Climate-Related Financial Disclosure (TCFD). This was a critical first step in building transparency and assessing progress.

Current status
During the reporting year our focus was on the Company's indirect lobbying activity. NextEra's first trade association disclosure report scored poorly in benchmarking. We, therefore, led the filing of a shareholder resolution on these points in late 2022 which was subsequently withdrawn following successful engagements.

We seek to use the best possible 'tool' for achieving the desired outcome and often use a variety of these techniques at any one point.

In addition, we seek to act as effective stewards of the other asset classes under our care. In property, we encourage our third-party managing agent to develop action plans for reducing the environmental and social footprints of our key assets. As money market funds make up a significant portion of our assets under management, we have developed an approach to assessing and engaging with our counterparties. This approach will be redeveloped in 2023/24.

Our engagement approach is subject to strict governance and continual improvement – which is overseen by the Investment Committee – and we seek to report annually on the progress of engagements.

Further details of our approach to engagement are available in our Engagement Policy.

A full review of our engagement activities, including assessment of progress, is included in our annual Sustainable Investment Outcomes Report.

UNSUCCESSFUL ENGAGEMENT: AMAZON AND WORKERS' RIGHTS

Background
Amazon has faced criticism relating to working conditions and their respect for trade union rights.

The topic grew in prominence over the course of 2022, after Amazon workers at a large fulfilment centre on Staten Island made history by voting to form the first Amazon Union. Since then, the Union has faced widespread and well-publicised opposition and anti-union interference from the company. An alleged $14 million[7] was spent by Amazon on efforts to quash union drives at the company, including $4 million spent on anti-union consultants, brought in to dissuade people from joining the Union.

Engaging with Amazon
As shareholders, we believe that Amazon itself has much to gain from supporting its workers' efforts to organise. Evidence suggests that trade unions can result in higher corporate productivity, lower staff turnover, a better health and safety record, and greater innovation.

Towards the end of 2022, we co-signed a letter to Amazon, calling for the Board of Directors to commission an independent, third-party 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. Six weeks later, having received no meaningful response, we escalated the engagement by co-filing a shareholder resolution at the company for its 2023 annual general meeting.

While out of the reporting year we include the results for context. The proposal went to vote on 24 May 2023. Our resolution achieved 34.6% of the overall vote and 41.8% of independent shareholders' vote. However, we are yet to see progress from the company in delivering any of the requested changes.

Next steps
We will be reformulating the engagement process to seek to achieve progress on this important issue.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity and outcome

Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.

Signatories should also describe the outcomes of collaborative engagement.

We believe in the power of investor collaboration. CCLA has a long-track record of driving positive change through our active ownership practices. However, we recognise that by working collaboratively with other investors we can have a much bigger impact. For this reason, we seek to build, or participate in, the most effective engagement coalition to achieve our goal.

This ranges from the Climate Action 100+, that is backed by over $68 trillion of assets, to the £25 billion Church Investors Group. We seek to take a leading role in all of the collaborative engagements in which we participate and only work with other investors who are able to dedicate equivalent resources and share our ethos on the need for engagement to deliver change. The success, or otherwise, of collaborative engagements is assessed by our Investment Committee.

Recognising our aim to act as a catalyst for investor action on underserved issues, we seek to create our own collaborative engagement initiatives where there is not an existing programme.

One example is the Find It, Fix It, Prevent It initiative, that was launched by CCLA in 2019. The collaborative engagement aims to increase the effectiveness of corporate actions on modern slavery through: direct engagement with UK-listed companies in the hospitality industry, public policy engagement and the provision of data and resources. To aid engagement, we created a detailed Engagement Expectations document that sets out the clear aims and objectives of a 'Find it, Fix it, Prevent it' style engagement.

At the end of the reporting year the initiative was supported by investors with combined assets of over £14.5 trillion (2022: £7.5 trillion).

We also recognise the importance of industry partnership and seek to take an active role in the life of the City of London. Key CCLA staff members participate in working groups or committees in a variety of different organisations including, but not limited to, the Investment Association and the Principles for Responsible Investment.

FIND IT, FIX IT, PREVENT IT ENGAGEMENT OUTCOMES

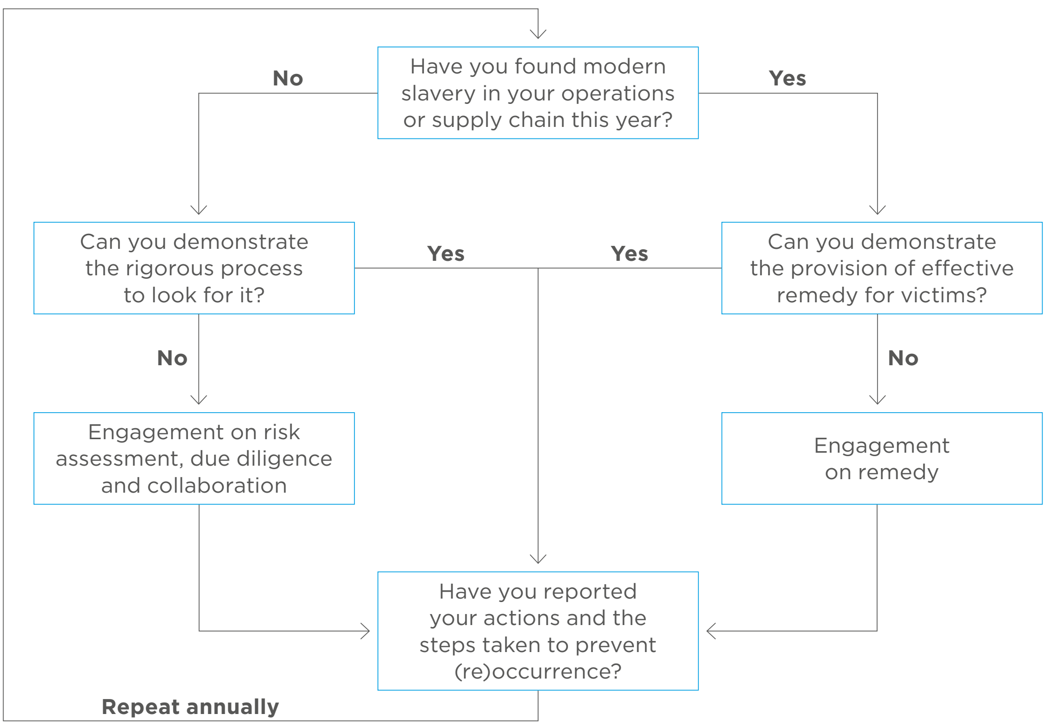
CCLA's engagement expectations document guides all engagements on the Find it, Fix it, Prevent it initiative.

The objectives are based on the UN Guiding Principles of Business and Human Rights and draw on existing best practice principles developed by the Business & Human Rights Resource Centre and KnowTheChain.

The Find it, Fix it, Prevent it coalition's engagement programme is circular and designed to be repeated annually. Its delivery is illustrated in the diagram below. The first phase of work, initiated in 2020, focused on 14UK-listed companies within the hospitality sector: Carnival, Compass Group*, Domino's Pizza Group, EI Group, Greggs*, InterContinental Hotels Group*, J D Wetherspoon, Marston's, Mitchells & Butlers, PPHE Hotel Group, Restaurant Group, SSP Group, TUI Group, and Whitbread. Phase two, initiated in late 2022, worked with 17 UK-listed construction companies: Balfour Beatty, Barratt Developments, Bellway, Berkeley Group Holdings, Countryside Developments, Crest Nicholson Holdings, Genuit Group*, Ibstock, Marshalls, Morgan Sindall Group, Persimmon, Redrow, RHI Magnesita, Taylor Wimpey, Tyman, Vistry Group, and Volution Group.

The collaborative engagement group consists of 26 investors. Each investor is responsible for engagement with one or two companies over a one- to three-year timeframe. Each company is allocated a minimum of two investors: one to lead, the other to support. The coalition meets periodically to share progress and best practice. We are pleased to report that several target businesses disclosed that their modern slavery processes had successfully identified areas of concern. We are encouraging them to support the provision of remedy to those involved.

* A holding in a CCLA portfolio(s).



Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity and outcome

Signatories should explain:

- how they have selected and prioritised issues, and developed well informed objectives for escalation
- when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples
- how escalation has differed for funds, assets or geographies.

Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.

As outlined in our response to Principle 9, we seek to engage with every equity holding at least once per year and have targeted engagement plans for any asset where we have specific concerns about strategy, capital structure, governance or the potential for negative environmental or social impact.

While we seek to support the companies in which we invest on behalf of our clients, we recognise that our dialogues with companies cannot be open-ended. Engagement progress is monitored routinely and, if not sufficient, can lead to an escalation in our concern and eventually lead to divestment. We grade our equity engagements on a risk scale, which can escalate to reflect increased concerns. Our current practice ranges from Level One, routine voting, to Level Four where we divest automatically if no progress is achieved in a limited time period. These levels are set by the Investment Committee, based on the advice of our sustainability specialists.

Should we have concerns about the progress of an engagement, in the first instance, we will seek additional meetings with company management, before considering speaking publicly or seeking to file a shareholder resolution. In extremis, when in the interests of our clients, poor responses to engagement can, and have, resulted in divestment. Engagement escalation is formally built into our approach to assessing companies' corporate governance and can affect the grade awarded to a specific business. Should a company's rating fall significantly, this can instigate a reassessment of the investment case and trigger a divestment process.

This process is adopted irrespective of the sector and/or geography of the company in consideration.

Exercising rights and responsibilities

Principle 12

Signatories actively exercise their rights and responsibilities.

Context

Signatories should:

- explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies.

In addition, for listed equity assets, signatories should:

- disclose their voting policy, including any house policies and the extent to which funds set their own policies
- state the extent to which they use default recommendations of proxy advisors
- report the extent to which clients may override a house policy
- disclose their policy on allowing clients to direct voting in segregated and pooled accounts
- state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'.

We recognise the power of proxy voting and seek to exercise our clients' voting rights at all investee companies, irrespective of their country of listing, and, to increase our impact, seek to vote all portfolios and mandates in the same manner. So that we can retain our right to vote we do not lend our securities.

Our voting seeks to promote best practice corporate governance, further our wider active ownership priorities and to reflect our clients' values. For this reason, we regularly (defined as more frequently than our data provider's standard approach) vote against management on issues such as executive remuneration, board composition (including gender diversity and where we have concerns regarding a director's performance on a particular issue such as climate risk management), the independence of auditors and the Annual Report and Accounts if we feel that the ESG disclosures made by a company are inadequate. Our voting policy is available on our website. We aim to increase our impact by advising companies of the reasons for our approach ahead of the meeting.

To benefit from their extensive data, our voting is administered by a third-party partner (currently ISS) who work to a bespoke proxy voting policy that we have developed with like-minded investors. To check that they are appropriate we review all voting recommendations made to us prior to submitting our intention. We also regularly review data provided by ISS to check that we are using all of our possible voting positions.

While we integrate our clients' sustainability preferences within our voting guidelines, we recognise that from time-to-time some clients will wish to vote in a different way to our 'house position'. For this reason, in segregated accounts we directly implement any voting instructions that we have been given and seek to deliver 'split voting' in our pooled funds on a best endeavours basis. During the reporting year we have not received any client requests to vote in a different way from our standard policy.

As we are global investors, we seek to exercise our ownership rights at investee companies irrespective of the geography of their listing. However, recognising different regulations and norms, for some resolutions, our voting policy allows for companies to be considered against home market standards. An example relates to executive pay resolutions where company proposals are judged against 'home market standards' in addition to our wider criterion.

Activity and outcome

For listed equity assets, signatories should:

- disclose the proportion of shares that were voted in the past year and why
- provide a link to their voting records, including votes withheld if applicable
- explain their rationale for some or all voting decisions, particularly where:
  - there was a vote against the board
  - there were votes against shareholder resolutions
  - a vote was withheld
  - the vote was not in line with voting policy.
- explain the extent to which voting decisions were executed by another entity, and how they have monitored any voting on their behalf
- explain how they have monitored what shares and voting rights they have.

For fixed income assets, signatories should explain their approach to:

- seeking amendments to terms and conditions in indentures or contracts
- seeking access to information provided in trust deeds
- impairment rights
- reviewing prospectus and transaction documents.

For listed equity assets, signatories should also provide examples of the outcomes of resolutions they have voted on over the past 12 months.

We seek to exercise our clients' voting rights at every investee holding. During the reporting year we voted on 2,932 resolutions at 204 meetings held by 183 companies. We were unable to vote at a small number of company meetings due to a variety of factors. These included purchasing new companies or additional shareholdings after the ballot cut off period and the requirement in a small number of markets for us to establish Power of Attorney arrangements which, due to our small shareholdings, would not be cost effective for our clients.

Voting on management proposals

	CCLA	ISS*
All resolutions		
With management	86%	97%
Against manager	14%	3%
Director election		
With management	86%	98%
Against manager	14%	2%
Executive remuneration (reports and policy)		
With management	20%	84%
Against manager	80%	16%

Source: CCLA, year ended 31 March 2023. *Not including resolutions that ISS 'refer' to the client for decision.

We seek to be transparent about all of our voting activity and publish a rolling 12-month overview every quarter on our website. This report provides a full overview of our rationale for any votes against policy.

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PROXY VOTING

During the year we did not support 14% of resolutions proposed by management. By way of comparison, should we have followed our outsourced provider's, ISS, default voting policy we would have not supported 3% of resolutions. This difference highlights our willingness to vote against management on issues that we believe require improvement. The most common reasons for us not supporting management include:

Inappropriate, excessive or poorly aligned remuneration
During the reporting period we did not support 80% (ISS 16%) of companies' proposed remuneration policy or report. The three most common reasons for us not supporting a remuneration resolution were:

1. Concerns about the construction of the annual bonus element. We believe that poorly constructed annual bonuses can disincentivise the delivery of strong long-term performance.
2. The overall quantum of the award to executives. This reflects our systemic concern about inequality.
3. The lack of ESG criteria within awards, as we believe that these incentivise directors to think about the wider environmental and/or social impact of their business.

Not supporting the election of directors
We vote against the re-election of directors to boards where we have concerns about the overall structure of the board and/or to hold directors accountable for the decisions of their committees. During the year we did not support 14% (ISS 2%) of director election resolutions. The most common reasons for not supporting the election of a director were:

1. The performance of the remuneration committee – where we have specific concerns about a proposed executive remuneration award or policy we do not support the re-election of the chair or, depending upon the severity of our concerns, all members of the committee.
2. Board governance – this reflects our desire for boards to provide a strong level of independent oversight and includes, but is not limited to concerns regarding the combination of the roles of CEO and chair, and underrepresentation of genuinely independent directors.
3. Poor levels of gender or ethnic diversity in senior management. For this we hold the chair of the nomination committee accountable.

Supporting shareholder resolutions
We seek to reflect our wider stewardship priorities when considering resolutions filed by other investors. For this reason, we supported 99 of 116 shareholder resolutions in the reporting year. One example of a shareholder resolution that we did not support was filed at the Walt Disney Company. The resolution requested the company conduct a work-place non-discrimination audit, with the aim of supporting the view that the company were discriminating against employees who were deemed to be 'non-diverse'. We did not support this resolution as data on the company's workforce suggested that the request was not supported by evidence.

Our voting was administered by our third-party provider in line with our bespoke voting guidelines. We reviewed 100% of ballots prior to them being submitted and informed every company in advance of the meeting if we intended to not support them on any resolution. This allowed us to enter into engagement prior to the meeting and to fact check our data provider's research.

During the reporting year CCLA did not exercise voting rights over any fixed income holding nor did we seek any amendments to the terms and conditions offered by indentures or contracts. This represents a very small percentage of our assets under management.

VOTING ON SUSTAINABILITY

In addition to our standard vote outcomes, we integrate our wider stewardship priorities into our voting practice as follows:

Better environment
Both JP Morgan and Bank of America faced shareholder resolutions on the 'Adopt Fossil Fuel Financing Policy Consistent with IEA's Net Zero 2050 Scenario'. JP Morgan also faced a second resolution asking it to 'Report on Absolute Targets for Financed GHG Emissions in Line with Net Zero Commitments'.

The lack of progress by these companies led us to escalate our concerns; we are supporting As You Sow in filing shareholder resolutions at both companies, seeking alignment between the banks' activities and their greenhouse gas emissions targets.

Better health
We supported several resolutions relating to greater disclosure on public health impacts of products ranging from reports on Covid-19 vaccines at Johnson & Johnson, Pfizer and Merck to reports on 'Public Health Costs of Food and Beverages Products' at PepsiCo.

Better work
Towards the end of 2022 we supported a shareholder proposal at Nike, seeking a 'pause' on the sourcing of cotton and other raw materials from China until the lifting of a US government advisory on forced labour in the Uyghur region of Xinjiang. The proposal was put forward at its annual shareholder meeting by Domini Impact Equity Fund and Vancity Investment Management Canadian Equity Fund. It is estimated that 85% of China's cotton comes from the Uyghur region and while Nike has worked hard to ensure with its first-tier suppliers that its codes of best practice are followed, given the human rights concerns we believed the company needed to go further back into the supply chain, checking that suppliers of yarn, cotton and raw materials are meeting its expected standards.

Endnotes

1 Deloitte (2022), ‘Mental Health and Employers: The Case for Investment – Pandemic and Beyond.’ Online at https://www2.deloitte.com/content/dam/Deloitte/uk/ Documents/consultancy/deloitte-uk-mental-health-report-2022.pdf.

2 ‘Mental health matters’ (2020), The Lancet Global Health, 8(11). Online at www.thelancet.com/journals/langlo/article/PIIS2214-109X(20)30432-0/fulltext

3 Based on equity fund figures. The turnover figure for the multi-asset funds is higher based due do the change in asset allocation during the year.

4 The MSCI ESG Rating for funds is designed to measure the resiliency of portfolios to long-term ESG risks and opportunities. The most highly rated funds consist of issuers with leading management of key ESG risks. The ESG Rating is calculated as a direct mapping of ESG Quality Scores (scored out of 10) to letter rating categories. The ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings-climate-search-tool

5 CCLA fixed interest investment policy. Online at www.ccla.co.uk/about-us/policies-and-reports/policies/fixed-interest-investments-policy

6 Food Data Transparency Partnership aims to make nutrition reporting by food retailers, restaurants, caterers, wholesalers, manufacturers and online food ordering platforms mandatory.

7 McNicholas, N., Poydock, M., Sanders, S. and Zipperer, B. (2023), ‘Employers spend more than $400 million per year on ‘union-avoidance’ consultants to bolster their union-busting efforts’. Economic Policy Institute, March 29, 2023. Online at www.epi.org/publication/union-avoidance/. See also D. Jamieson (2023) ‘Amazon spent $14 million on anti-union consultants in 2022.’ HuffPost, March 31, 2023. Online at www.huffpost.com/entry/amazon-anti-union-spending-2022_n_6426fd1fe4b02a8d518e7010.

Important information

This document is not a financial promotion and is issued for information purposes only. It does not provide financial, investment or other professional advice. We strongly recommend you get independent professional advice before investing.

All sources are CCLA unless otherwise stated.

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WANT TO KNOW MORE?

Please contact:

David Ellis
Director of Governance and ESG Integration
david.ellis@ccla.co.uk
020 7489 6107

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