CCLA
GOOD INVESTMENT

Our approach to the Sustainable Finance Disclosure Regulation

Sustainability risks present a systemic threat to the markets in which we operate and can manifest themselves in both global and regional risks to both CCLA as an investment manager and the financial products we offer. We believe that these risks pose ongoing threats to shareholder value. In particular we view climate change as the greatest systemic risk to our planet, ecosystems and communities.

CCLA integrates the consideration of sustainability risks into its operations at all levels. This includes our investment decision-making process, risk management framework, product governance and stewardship activities.

This document provides summaries of CCLA's policies relating to the consideration of sustainability risks and information as to how those policies are consistent with consideration of these risks.

Sustainability, and sustainability disclosures in finance, are rapidly developing areas. While this document references our current policies on sustainability risks, there are many instances in which the data, tools and frameworks that we use in the integration of sustainability will evolve and improve rapidly. As a result, this document will be subject to regular review and update, at least annually, to ensure that it properly reflects the changing state of play and in line with our work in this area.

The Sustainable Finance Disclosure Regulation (SFDR) aims to provide investors with greater transparency on the degree of sustainability risks of financial products. Level 1 of the regulation which this disclosure statement covers came into effect on 10 March 2021 while the more detailed requirements will be due as of June 2022.

Definition of sustainability risk

CCLA uses the definition of sustainability risk included in the EU Sustainable Finance Disclosure Regulation (SFDR), which is as follows: 'Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.'[1]

This definition is consistent with our perspectives of sustainability risk and with both the UCITS[2] delegated directive and the amended AIFMD[3] delegated regulation which cover organisational-related requirements regarding sustainability risks.

Our interpretation of this definition indicates that CCLA aims to identify relevant extra-financial risks and subsequently determine which of them are material to our investments on an ongoing basis. Furthermore, we consider sustainability risks to interrelate with other established risk categories and risk interaction can affect materiality. Given this interpretation, CCLA considers the integration of sustainability risk as fundamental to protecting shareholder value over all time horizons.

The following sections of this document set out how we identify, prioritise and manage these risks as part of our investment process.

Information and disclosures for CCLA's individual financial products, a description of the manner in which sustainability risks are integrated in the investment decisions for a fund and the likely impact of the consideration of these risks, are included in fund documentation as well as on the website.

As our approach to managing sustainability related risks is applied across all assets under management, we consider all CCLA funds to be classified under 'Article 8' of SFDR. This means that our strategies promote social and/or environmental characteristics, and may invest in sustainable investments, but do not have sustainable investing as a core objective. We will continue to keep this classification under review.

1 Official Journal of the European Union (2019) Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability Related Disclosures in the Financial Services Sector. Article 2 (22).
2 Undertakings for the Collective Investment in Transferable Securities.
3 Alternative Investment Fund Managers Directive.

Integration of sustainability risk into the investment decision-making process

This policy represents the consideration of sustainability arrangements of both CCLA Investment Management Limited (CCLA IM) and its wholly owned subsidiary, CCLA Fund Managers Limited (CCLA FM) (collectively referred to as 'CCLA'). Where arrangements apply to only one firm this is noted.

In addition to our policies on the integration of sustainability risk summarised later in this document, CCLA's approach to integrating sustainability risks into its investment decision-making process is as follows.

CCLA's experience and a growing body of academic literature suggest that conventional financial modelling only gives part of the answer as to what makes a good investment. As a result, we carefully assess the environmental, social and governance (ESG) standards of all companies and assets and have integrated the considerations of these sustainability risks into our investment decision making processes. We identify and then remove companies and assets with high unmitigated ESG risks or the poorest standards of corporate governance from our investment universe and as part of this process, we identify material weaknesses in our portfolio holdings and develop an action plan to improve them through engagement with portfolio companies and other parties.

With corporate entities, we rate all companies' exposure and methods of managing sustainability risk prior to equity or debt purchases. Our assessment is based on two factors:

- We rate companies' corporate governance standards and their wider behaviour. This includes indicators such as the quality of accounting structures, board composition or whether internationally agreed behavioural norms have been violated, such as the United Nations Global Compact. Over the short term this is likely to be a key indicator as to which companies could destroy shareholder value through, for example, poor management oversight, which is particularly important for key decisions like acquisitions, or an increased risk of litigation.
- We look at companies' approach to sustainability and extra-financial risk and how they integrate these factors into their governance. We have created a proprietary sustainability factor matrix, where the most material sustainability risks are identified using the Global Industry Classification Standard (GICS) at sub-industry level and each investee company is assessed on the most relevant sustainability factors to their operations.

By focusing on issues such as climate change, public health, or water use, we are able to identify business models and industries whose value is at risk over the medium to long term by changing consumer preferences or regulation, and use this information in our investment decision-making process or to inform our engagement priorities. Companies that display the highest levels of sustainability risk are not investable without the explicit permission of the Investment Committee. The data for this assessment comes from our independent third-party data provider, MSCI (the industry standard for provision of sustainability and ESG data) and our in-house assessments.

The majority of our assets are managed directly as this allows us to implement our responsible investment policies in full. We do use a small number of investment funds managed by third parties to access specialist asset classes such as private equity and infrastructure. When investing in this way we adopt a similar approach and seek to identify projects and opportunities that maximise both prospective financial returns net of risk and which address extra-financial risks and opportunities.

Where we invest fund capital as a limited partner, we specify secure legal agreements to ensure sustainability factors are considered in the management of the mandate. Where this is not possible and there is no alternative route to the investment, we assess the fund's exposure and potential future exposure as a percentage of its net asset value, and if more than 10% of the fund is or is likely to be exposed to activities that are not in accordance with our ethical and responsible investment criteria, we will not proceed to investment. We continue to monitor the manager's approach to responsible investment and exposure to restricted activity. If we have concerns, we engage with the manager and would divest from any fund if the 10% threshold is breached.

Identification and prioritisation of principal adverse impacts

Summary

CCLA IM considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated principal adverse sustainability impacts statement of CCLA IM.

This principal adverse impacts statement covers the reference period from 1 January 2020 to 31 December 2020.

Description of principal adverse sustainability impacts

CCLA's purpose is to harness the power of investment markets to help our clients maximise their impact on society, hence, CCLA considers the principal adverse impacts of its investment decision on sustainability factors. CCLA considers impacts relating to climate change, the environment, human rights, good governance, and social norms as principal in nature. In order to minimise adverse impact on principal sustainability factors, CCLA implements exclusions across its financial products and continually monitors its portfolios.

Our proprietary sustainability matrix is designed to support the identification and management of principal adverse impacts, with the most material sustainability risks identified at GICS sub-industry level. Each candidate company for investment is assessed on the most relevant sustainability risk, both before any purchase and on an ongoing basis. Through this monitoring and assessment, we are able to prioritise companies for engagement via a structured engagement escalation process. In turn, this provides the mechanism through which, via an active ownership approach, we are able to mitigate and manage any potential adverse sustainability impacts.

Description of policies to identify and prioritise principal adverse sustainability impacts

CCLA implements the following policies with reference to the identification and prioritisation of principal adverse impacts on sustainability factors. These policies can be found on the homepage of CCLA's website.

Climate change and investment policy

CCLA recognises that climate change, and associated changes in governmental policy, pose an ongoing threat to shareholder value. We view climate change as the largest threat to our planet, ecosystems, and communities, as well as a being a critical issue for all investors. We also recognise that the transition to a low carbon economy presents investment opportunities. For these reasons we have long supported efforts to limit global temperature rises to substantially below two degrees Celsius above pre-industrial levels.

As investors we have a duty to manage our financial exposure to climate related risk and to maximise the opportunities arising from the low carbon transition for our clients. We do this in five ways. First, informed by scenario analysis and qualitative investigation by our investment analysts and ESG experts, we conduct an annual review of the major risks and opportunities associated with climate change. Second, informed by this analysis we seek to avoid investing in the companies, in the most exposed sectors, who are not properly preparing, or are not able to prepare, for the transition to a low carbon economy. Third, we engage with companies represented in our portfolios to support them in addressing and mitigating extra-financial sustainability risks. Fourth, we seek to promote proactive climate regulation and legislation through interaction with public policy makers. Finally, we seek to identify investments that meet our risk and return objectives and dedicate capital to accelerate transition to a low carbon economy.

This policy applies to all assets under management with the exception of Property. Property assets are managed in accordance with CCLA's Responsible Property Investment Policy, which includes environmental risk management.

Click here to read our climate change and investment policy.

Environmental policy

We recognise that there are environmental, social and ethical issues associated with our activities. We aspire to excellence in promoting best practice to minimise impacts and generate positive results where possible through investment and procurement decisions. CCLA has implemented an Environmental Management System in line with the requirements of the internationally recognised voluntary standard ISO 14001:2015 to effectively manage these impacts and to show continuing commitment to the protection of the environment.

Click here to read our environmental policy.

Modern slavery statement

We are committed to respecting human rights in all our operations CCLA is a small business with a limited number of suppliers, however, we are mindful that modern slavery (for the purposes of this statement modern slavery is defined as modern slavery, servitude, forced or compulsory labour and human trafficking) is likely to be present in the supply chain of nearly every company. For this reason, we assess potential suppliers' approach to addressing modern slavery prior to us entering into a business arrangement. We also regularly review the approach taken by our existing suppliers and pay particular attention to the 20 largest. Where we have questions or concerns, we meet with the management of the supplier in question. During the reporting year our analysis identified one supplier that operates in a high-risk sector but does not meet the revenue threshold required to report under the Modern Slavery Act. For this reason, we met with them to discuss their approach to sourcing the materials that they use.

Whilst our direct operations are limited to the UK we invest our clients' assets in businesses that have global operations and supply chains. As a consequence, we believe that our highest exposure to modern slavery is likely to be through the companies and assets held in client portfolios. To address this, we have developed an active engagement programme that encourages prioritised investee businesses to develop strong governance mechanisms to identify, and then address, instances of modern slavery. During 2019-2020, we developed the 'Find It, Fix It, Prevent It' engagement initiative which is seeking to act as a catalyst for investor action on modern slavery.

Click here to read our modern slavery statement.

Cluster munitions and landmines policy

CCLA does not invest in any company that produces cluster munitions and/or landmines (as per the definitions used and information provided by our global screening provider).

This is in line with the UK Law Commission's 2014 Review of Fiduciary Duty.

In addition, our CBF Church of England Funds follow the Ethical Investment Advisory Group's policy, which precludes investment in these companies. Our COIF charity funds use two client-driven ethical investment policies, both of which also preclude investment in these companies.

Click here to read our cluster munitions and landmines policy.

Responsible property investment policy
We believe that ESG factors will impact the future profitability of property assets. As a consequence, our responsible property investment policy applies to the selection, management, and refurbishment of all property assets under our stewardship. Prior to any purchase we consider:

Environmental risk, environmental audit scores and risk assessments, including energy use, water consumption, greenhouse gas emissions and waste management.

Social factors, such as the availability of public transport and the facilities available for tenants.

Once we have purchased a property, we seek to be an active owner and if we see potential value we refurbish to improve environmental and social performance. We appoint managing agents to look after our properties on a day-today basis. As part of this work they are tasked with reporting regularly on progress against the targets we have established. Furthermore, we screen incoming tenants to ensure their activity does not violate any of our investment policies or restrictions.

Click here to read our responsible property investment policy.

Engagement policy
CCLA's engagement policy sets out how CCLA IM undertakes shareholder engagement for its funds and discretionary mandates. The purpose of this policy is to describe how CCLA ensures the integration of shareholder engagement as per the Shareholder Rights Directive II (EU) 2017/828 (SRDII). CCLA endorses and supports the principles on engagement with the investee companies set out in both the UK Stewardship Code 2020 and SDRII and is a signatory to the UN-supported Principles for Responsible Investment.

We believe in the power of positive change. 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 the delivery of sustainable and attractive long-term returns to our clients requires us to drive real and positive change.

We do this by:

- Actively 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
- Seeking to be a catalyst for change in the investment management industry. By delivering positive change we can limit risks before they negatively impact on the performance of our clients' assets and the structure and function of society

CCLA's engagement policy sets out the 10 rules that we apply to deliver on this philosophy. These are applied to all assets under our care, irrespective of their geography.

Click here to read our engagement policy.

References to international standards

CCLA is a signatory to the Principles of Responsible Investment.

CCLA is committed to manage all it's assets in line with Net Zero Carbon Emissions by 2050, in line with the objectives of the Paris Agreement.

Remuneration policy and sustainability risk

CCLA's remuneration policy can be found on its website and applies to all staff of the company, with additional controls for staff identified as Remuneration Code Staff. The remuneration policy is applicable to all aspects of remuneration that could have a bearing on effective risk management, including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements, where relevant.

Stewardship is included into the competency assessment of all 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 for meeting our clients' objectives.

The objectives of the policy are to:

- set out the principles governing CCLA's approach to remuneration
- ensure that remuneration is in line with applicable regulations on remuneration
- ensure that remuneration is properly monitored
- inform management of the applicable rules on remuneration.

CCLA IM is currently subject to IFPRU[4] (CRD IV)[5], MiFID II[6] and the UCITS Remuneration Codes and it also takes into consideration the AIFMD Remuneration Code given the nature of some of the funds it manages. CCLA IM will also become subject to the remuneration rules within the Investment Firms Directive as of January 2022. CCLA FM is subject to the AIFMD Remuneration Code.

CCLA's remuneration policy incorporates all relevant provisions of these codes, and as a result CCLA's policy is consistent with the integration of sustainability risks.

Stewardship responsibilities are included in the job specifications and competency assessments of all 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 our meeting our clients' objectives, including in the consideration of sustainability in the investment decision making process.

Specifically, principle 2 of CCLA's remuneration policy, 'Supporting business strategy, values and long-term interests' is consistent with the integration of sustainability factors. As set out in the Responsible Investment Report and CCLA's policies relating to the consideration of sustainability factors in its investment decision-making process, the consideration of these factors is central to CCLA's objectives, values and long-term interests.

Click here to read our remuneration policy.

4 The Prudential sourcebook for Investment Firms.
5 Capital Requirements Directive.
6 Markets in Financial Instruments Directive.

Disclaimer

This document is not a financial promotion and is issued for information purposes only.

Issued by CCLA Investment Management Limited (registered in England number 2183088) and CCLA Fund Managers Limited (registered in England number 8735639), whose registered address is Senator House, 85 Queen Victoria Street, London EC4V 4ET, are authorised and regulated by the Financial Conduct Authority.

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