

A climate for Good Investment



CCLA
GOOD INVESTMENT

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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.
A Break from the World, HM Young
Offender Institution Aylesbury,
Arts Society Chiltern Hills Area
Highly Commended Award for Painting.

koestlerarts.org.uk

Introduction

On 20 March 2023 UN Secretary-General Antonio Guterres told delegates of the United Nations' Intergovernmental Panel on Climate Change (IPCC) that the planet is 'nearing the point of no return', warning that they are at risk of missing the internationally agreed limit of 1.5 degrees Celsius of global warming since pre-industrial times.

Global emissions of carbon dioxide and other greenhouse gases continue to increase – mainly due to burning of fossil fuels, deforestation, and intensive agriculture – when in fact they need to decline quickly.

It is no longer enough to focus on short-term financial materiality, where many existing ESG policies begin and end. While delivering consistent long-term risk-adjusted returns for our clients, we also need to focus on doing what

is right. We need to stand together to collectively deliver real and lasting positive change. As Chief Executive of CCLA, I have challenged our team to be a catalyst for this action. Our work on climate change is one example of this focus.

The effects of climate change go beyond metrics and targets: the investment industry needs to deliver real change for real people in the real world. Air pollution is affecting people's health. Extreme temperatures, floods, and fires increase migration which in turn increases the risk of people falling victim to modern slavery.

Despite increased attention, there is much still to achieve.

Peter Hugh Smith

Chief Executive, CCLA

About CCLA

CCLA was born through the launch of the Church of England Investment Fund in 1958, which allowed church organisations to pool their funds for greater efficiency and service. Local authorities followed this lead in 1961, and in 1963 the Charity Commission followed suit for the broader charity market.

With the introduction of financial services regulation in 1987, Churches, Charities and Local Authorities (CCLA) Investment Management Limited was formed. Our approach to environmental, social and governance (ESG), and ethical and responsible investment stems from this heritage.

CCLA is in the unique position of being owned by investment funds of our three client groups – churches, charities and local authorities. We are the spirit of a mutual in the body of a commercial private limited company. One trustee from each group is a CCLA non-executive director and we report on company performance each quarter to all trustees. Our ownership structure is determined by our history and fully reflective of our client base.

This unique position enables us to help not-for-profit organisations achieve their aspirations, enable trustees to meet their obligations, and individual investors to make their money matter.

CCLA has committed to seek to achieve net-zero emissions for our listed equity assets under management no later than 2050. As at 31 March 2023, this represents 55.67% of our assets under management.

CCLA has committed to seek to achieve net-zero emissions portfolios for all our listed equity assets under management no later than 2050.

Climate change and investment policy

As a founding member of the Net Zero Asset Managers initiative¹, CCLA has committed to managing our listed equity assets (with the exception of listed collective vehicles, such as investment trusts) to a carbon footprint that is below a decreasing maximum ceiling. The ceiling has been set based on the 2018 emissions of the MSCI World Index and decreases in line with the *IPCC Special Report on Global Warming of 1.5°C*.² These targets will be revised every five years, with the next review being due in 2026.

We will do this through our Act, Assess and Align sustainability framework:



Act

Acting to increase the pace of climate action.

We believe that investor activism is the best way to address climate change and achieve net-zero emission portfolios.

For this reason, we commit to the following:

- Leading impactful engagements, both directly and in collaboration with other investors, with prioritised listed equity holdings and money market fund counterparties on climate change. As a minimum, this will include the 30 listed equity holdings to which CCLA has direct exposure that have the highest greenhouse gas emissions across Scopes 1, 2 and 3.
- Incorporating climate risk into our AGM voting activity. Our specific requirements of companies will be disclosed annually in our proxy voting policy.
- Working with policymakers to push for progressive regulation and legislation and encouraging any industry organisations, that CCLA is a member of, to promote climate action in line with the requirements of the Paris Agreement³.

DEFINITION: SCOPES 1, 2 AND 3

Scopes 1, 2 and 3 are a categorisation of greenhouse gas (GHG) emissions.

Scope 1 emissions: GHG emissions that a company makes directly – for example while running its boilers and vehicles.

Scope 2 emissions: emissions companies make indirectly – such as purchased electricity or energy for heating and cooling buildings – that is being produced on its behalf.

Scope 3 emissions: All the emissions associated, not with the company itself, but that the organisation is indirectly responsible for, up and down its value chain. For example, from buying products from its suppliers, and from its products when customers use them. Usually the largest emission category.



Assess

Assessing high carbon sector companies' position against the energy transition as part of our listed equity investment process (with the exception of collective vehicles) and avoiding those that do the most harm.

We recognise that high carbon, and fossil fuel based, assets face increased financial risks during the inevitable energy transition.

For this reason, we commit to the following:

- Avoiding companies that have the most significant, negative, climate impact. We believe that active ownership, rather than exit, is more likely to increase the pace of climate action. However, it is our view that the companies that contribute the most to climate change face significant, long-term financial risks. In some cases, this makes it difficult for us to quantify their fair value (see our [exclusions](#)).

- Assessing the most exposed companies' position against the Paris Climate Change Agreement. Recognising the potential for regulation, legislation and changing consumer preferences to impact upon future profitability, we assess the decarbonisation plans of those companies that are in carbon intensive sectors prior to purchase. On the back of this analysis we:

- require the approval of CCLA's Investment Committee prior to investing in companies in the electrical utility sector that are not assessed as being aligned with the nationally determined contributions (NDCs)
- prioritise for engagement any business that is not assessed as being aligned with a 'below 2 degrees' future. The efficacy of this engagement is monitored by the Investment Committee who can mandate divestment if sufficient progress is not being made
- include concerns about climate financing in our annual assessment of the counterparties used by our money market funds.

DEFINITION: NATIONALLY DETERMINED CONTRIBUTION (NDC)

A non-binding national plan highlighting climate change mitigation, including climate-related targets for greenhouse gas emission reductions.



Align

Aligning our portfolios with our clients' requirements and disclosing information about our approach to managing the risks and opportunities associated with climate change.

To achieve this we:

- tailor our investment solutions to meet our clients' climate change priorities as discerned through our regular client consultation process.
- commit to reporting annually on how we have discharged this policy, including information and analytics on our funds' transition to net-zero emissions, and details of our management of the opportunities and risks associated with climate change.

We consider this to be part of our fiduciary duty to our clients and by taking these steps we aim to achieve net-zero emissions in equity portfolios no later than 2050.

Accountability

In setting this policy we acknowledge that the scope for CCLA to invest for net zero and to meet the commitments set above depends on the evolving regulatory environments within which CCLA, and the companies we invest in, operate.

As such, this policy has been set in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their NDCs (nationally determined contributions).

Key changes during the year

As an asset manager, it is crucial that we use our financial power and ownership rights to push for positive change on the issues that matter, including climate change and natural capital (this refers to the world's stocks of natural assets which include soil, air, water and all living things).

The scale of the environmental challenges that we face are extraordinary and, despite significant attention from investors, there is much more work to do. At CCLA we drive progress through engagement in order to influence and alter corporate behaviour – we want to achieve net-zero equity portfolios through real world actions, not just transactions. But doing this takes time, resource and expertise.

In January 2023 we appointed Tessa Younger as Stewardship Lead for the environment. This is a new role, created to add capacity and momentum to the significant work undertaken by our Stewardship Director for Climate Change, Helen Wildsmith, and CCLA's wider Sustainability team. Tessa previously spent many years at Pensions & Investment Research Consultants, Europe's largest independent corporate governance and shareholder advisory consultancy, where she most recently held the position of Head of Engagement.

Tessa leads CCLA's 'better environment' work, which includes climate change and nature, with the aim of driving clear improvements within the companies in which CCLA invests.

Over the past year the Sustainability team has co-filed two shareholder resolutions that focus on climate action. These were at Bank of America, and NextEra energy. We were pleased to be able to withdraw the resolution at NextEra following the company committing to action. We also continue to be a proud member of Climate Action 100+ (CA100+), a global investor engagement coalition on climate change. As part of CA100+ we have engaged with Coca-Cola and collaborated on other CA100+ consumer goods engagements such as with Nestlé and Unilever.

While investors (asset managers and asset owners) have control over their portfolio actions and can be a significant force for good in accelerating the pace of climate action, they invest in the 'real economy'. This means that if the world does not decarbonise at a sufficient rate, no matter how well intentioned or actively pursued, it will not be possible for the majority of net-zero targets to be realised.

This is recognised in the Net Zero Asset Managers initiative, which states that 'these commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of nationally determined contributions'.

Engagement with companies isn't enough, so we have continued to work with the Powering Past Coal Alliance and the UK Transition Plan Taskforce on bringing climate change to the top of policy makers' agenda.

About this report

Climate change presents financial risk to the global economy. Therefore, financial markets need clear, comprehensive and high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in our changing world.

This report aims to provide stakeholders with a comprehensive understanding on the impact of climate change on CCLA. They document a series of activities we have undertaken to prepare our business for mandatory climate disclosures next year which aim to future-proof our business and drive strategic change.

The report covers the period between 1 January 2022 and 31 March 2023. The report covers CCLA Investment Management but also CCLA Fund Management as a delegate.

The structure of the report covers governance, strategy, risk Management and metrics and targets.

1. **Governance:** We describe the organisation's governance around climate-related risks and opportunities, highlighting the board and management's role in assessing and managing climate-related risks and opportunities.
2. **Strategy:** We present our strategic sustainability framework, the risks and opportunities associated with climate change. By incorporating scenario analysis and stress testing methodologies, we evaluate potential financial impacts.
3. **Risk Management:** We discuss our approach to identifying, assessing, and managing climate-related risks, both physical and transitional.
4. **Metrics and targets:** In this section, we outline the key metrics used to assess and track our progress in managing climate-related risks and opportunities. We provide quantitative data and qualitative insights on portfolio and operational emissions and targets.

We view climate change as the largest threat to our planet, ecosystems and communities. Unmitigated, it will lead to increased erratic weather patterns, higher sea levels, biodiversity collapse and unprecedented mass migration.

Governance

Board and management oversight of climate-related risks and opportunities

We have established a clear governance structure for overseeing our management of the risks and opportunities associated with climate change in our investments:

- The board of **CCLA Investment Management Limited (CCLA IM)** is responsible for overseeing our approach to climate change and investment. To facilitate this oversight the board are provided with an annual overview of CCLA's management of climate-related financial risks.
- CCLA's **Executive Committee** holds responsibility for the company's approval of CCLA's approach to managing the risks and opportunities associated with climate change, including the Climate Change and Investment Policy.
- CCLA's **Investment Committee**, supported by the quarterly **ESG Forum**, is responsible for routine monitoring of the implementation of CCLA's management of the risks and opportunities associated with climate change. In addition, climate change-related metrics are included within CCLA's enterprise risk management framework.

- Day-to-day responsibility for the implementation of CCLA's approach to climate change and investment is held by CCLA's **Head of Sustainability**, who is a member of the company's **Executive Committee**.

Quarterly reports are provided to the relevant committees and boards for monitoring.

We conduct an internal audit of our processes with the results being reported to the board of CCLA IM and Executive Committee. Any processes that need improvement are assigned to the relevant department head for action.

For CCLA's own internal operational emissions, CCLA has implemented an environmental management system (EMS) 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. The EMS is managed by CCLA's **Environmental Management Committee** which is chaired by CCLA's **Chief Executive Office**. Progress is reported annually to the board of CCLA IM.

Climate-related risks and opportunities over the short, medium and long term

Policy and corporate engagement

Over the long-term, it is important that net zero is achieved through real-world emissions reductions. This is the only way to stop the negative impacts of climate change and requires an increase in the pace of the world's decarbonisation.

At CCLA, we seek to assist this process through engagement with policymakers by pushing for more meaningful regulatory action. We take the opportunity to lead engagement with companies to encourage them to accelerate action on emissions reductions. We call this approach 'actions, not transactions'.

While we, as investors, have control over our investment decisions and can be a significant force for good in accelerating the pace of climate action, we nonetheless invest in the 'real economy'. This means that if the world does not decarbonise at a sufficient rate, no matter how well intentioned or actively pursued, it will not be possible for the majority of net-zero targets to be realised.

Divesting

In the medium term, we recognise that companies in high-carbon industries will face increased regulation and legislation that will disrupt their business models.

For this reason, we will continue to avoid investing in companies with uncompensated, unwanted, unwarranted and unmitigated environmental risks – those that are the most damaging to the environment. For other companies, we will assess their alignment with the goals of the Paris Climate Change Agreement before adding them to our portfolios.

The risks associated with this approach are that we cannot use our influence to engage with the companies in which we don't invest. When these industries

experience above-average returns our clients will not be able to profit from capital growth in these sectors.

Investing

In the short-term, with today's climate warming already at 1.2 degrees Celsius⁴, the compounding effect of a changing climate is currently being felt, intensifying humanitarian challenges such as food insecurity. According to the World Economic Forum's 2023 risk report, failing to mitigate climate change is ranked as one of our most severe short-term risks.⁵

In our multi-asset funds we allocate some capital to assets that have a beneficial climate impact. Purchasing assets that already exist on the secondary market (an arena such as a stock exchange that facilitates the buying and selling of investments between two or more investors) has little positive real-world impact. Where we can, we prefer to identify and invest in assets on the primary market, which is where the proceeds of the sale go directly to the company. An example of a primary market transaction would be an Initial Public Offering. Where possible, we favour identifying and investing in assets on the primary market, such as the Clean Growth Fund for which we provided seed capital.

The largest businesses in the developed markets comprise the MSCI World Index, but according to data from MSCI, only 43 of 1,489 constituents have set 2030 net-zero targets. Several of these 43 companies are held by CCLA, but limiting our investment universe to these businesses (as would be required should we aim for 2030 net-zero equity portfolios) would ultimately constrain our ability to build diversified portfolios and, from a sustainability perspective, would limit our ability to engage with those companies that most need investor support to improve their credentials.

OUR STRATEGY

Our strategy is delivered through CCLA's Sustainability team and supported by various data providers (including MSCI and CDP) and collaborative engagement groups, such as

- Net Zero Asset Owner Alliance (NZAOA)
- The Net Zero Asset Managers initiative

- Climate Action 100+
- Institutional Investors Group on Climate Change (IIGCC)
- Powering Past Coal Alliance
- Ceres
- Interfaith Centre for Corporate Responsibility (ICCR)
- Financing a Just Transition Alliance

Strategic risks and opportunities

	Strategic method	Opportunities	Risks
Act	Policy and company engagement	<p>Engage policy makers to encourage an orderly and just transition</p> <p>Engage with companies in order to accelerate emissions reductions</p>	<p>Reputational risk from naming companies which we consider to not be transitioning quickly enough</p> <p>Failed engagements</p> <p>Slow deployment of government policy</p>
Assess	Climate risk assessment	<p>Assess and control financial risks that conventional financial analysis may miss</p> <p>Companies' ESG standards are of increasing importance as regulation, legislation and consumer preferences steadily shift to embrace sustainability – therefore businesses involved in the most unsustainable activities are likely, over time, to be punished</p>	<p>Limitation of our investment universe</p> <p>Risk of litigation if there is a failure to assess material risk</p>
Align	Investment/divestment	Put our client's capital to work, where possible, by investing in low carbon solutions and technologies	<p>Investment sectors adversely exposed to a transitioning economy lose value</p> <p>Disruptive technology may affect the value of investments</p> <p>Increased frequency of extreme weather events may impact the value of physical assets</p>

Impact of climate-related risks and opportunities on the organisation's businesses, strategy, financial planning and investment strategies

Risks

Financial markets can only be as healthy as the communities and the environment that support them. As asset managers whose revenues and long-term success depend on healthy markets, we have a vested interest in ensuring their long-term sustainability.

So, our assessment prior to purchase and our subsequent active ownership work is based on three themes:

1. Better environment
2. Better health
3. Better work.

We discuss how climate-related risks are factored into the asset classes in which we invest in more detail in the Risk management section of this report titled '[Identifying and assessing climate-related risks](#)'. The [Climate scenario analysis](#) shows the impact of climate-related risks and opportunities on CCLA.

Opportunities

We believe that encouraging improvements in company behaviour through active ownership is the most effective way in which asset managers can make a direct contribution to building a more sustainable world. Many sustainable investment activities treat the world as we want it to be, rather than seeking to improve the world as it is. Therefore, we believe that targeted and meaningful active ownership activities with companies that need to change should be recognised as a sustainable investment strategy. This acceptance is key to building a more impactful sustainable investment industry.

The OECD estimates that over \$6.9 trillion in investment is needed in order to move the world towards net-zero emissions⁶. This is acknowledged in our investment approach – we recognise that well-managed 'impact' assets can play a significant role in diversifying portfolios, as well as having a positive social and environmental impact.

However, we believe that purchasing assets that already exist on the secondary market has little positive real-world impact. Although challenging, we instead prefer to identify assets on the primary market because it is here that capital is specifically and most efficiently directed to enabling 'new change'. One example is our partnership with the UK government to launch the Clean Growth Fund. This will provide much needed venture capital to early-stage green businesses.

We have set an aspirational target to dedicate 5% of the capital of the COIF Charities Ethical Investment Fund to such investments, and these opportunities tend to also be allocated to our other multi-asset funds.

In our alternative assets we also hold funds that support the transition to a low-carbon economy, for example by expanding solar, hydro and wind electricity generation capacity in Europe.

As of 31 March 2023, the market value of our investments in climate positive solutions in our alternative assets was £346 million (approximately 3% of our total AUM).

Transition planning

We are developing an entity-wide transition plan to comply with Task Force on Climate-related Financial Disclosures (TCFD) and FCA requirements. We will publish this transition plan next year.

Strategic resilience and climate scenario analysis

Strategic resilience

The nature of our business means we have identified five broad mitigations to our transition risk exposure:

1. Our exposure is largely through financial assets, many of which are listed, so we have significant flexibility to adapt by trading, especially if active engagement should fail.
2. Our equity assets are managed to meet low carbon footprints, measured relative to the benchmark (MSCI World Index and MSCI ACWI Investable Market Index). They are absent of businesses which focus on extracting or refining coal, oil or gas.
3. Some of our alternative assets directly support the economic transition, such as wind and solar farms and energy storage.
4. We will continue to carefully manage our exposure to high-emitting businesses and sectors. We continuously analyse our carbon exposure, and where appropriate, seek out opportunities to improve our holdings through engagement.
5. Our portfolio of assets invested in our funds is well diversified across different sectors of the economy.

Climate scenario analysis

Scenario analysis is a useful tool for understanding the implications of climate change on investments and therefore on CCLA as a business. It may prompt longer-term strategic thinking about risks and opportunities.

We explore three scenarios⁷ of an increasing mean temperature above pre-industrial levels.

1. A 1.5 degrees Celsius scenario where we transition in an orderly way to a low carbon economy. This scenario assumes climate policies are introduced early and become gradually more stringent over time.

2. A 2 degrees Celsius scenario with a disorderly transition. In this scenario the introduction of policies is being delayed or inconsistent across different countries and sectors.
3. Finally, a 3 degrees Celsius scenario where we assume a late transition to a low carbon economy. This is also referred to as 'hot house world'.

All three scenarios assume that society evolves broadly in line with past trends and global population peaks around 2070.

The output of our scenario analysis is twofold.

First, there is the 'climate VaR' (value at risk). This measure quantifies the size of loss on a portfolio of assets over a given time horizon, at a given probability. The climate VaR is an aggregate figure comprising:

- **Policy climate VaR:** captures each company's share of the costs of regulatory and policy changes in order to meet each country's emission reduction target.
- **Technological opportunities VaR:** illustrates which companies will be the likely beneficiaries if/when climate policies are implemented on a country and global level.
- **Physical climate VaR:** indicates costs to business interruption associated with extreme weather.

Thus, our estimates of climate VaR from climate change can be seen as a measure of the potential for changes in the value of asset prices due to climate change.

Second, there is the 'implied temperature rise' (ITR). This captures a company's contribution to rising temperatures. The metric aims to quantify the alignment of a company's activities against future temperature goals.

We have modelled this on CCLA's listed equity assets and compared it with MSCI ACWI as a proxy for the world economy.

Climate scenario modelling

Climate scenario	Climate Value at Risk	CCLA equities	MSCI ACWI IMI
Orderly	Policy climate VaR	-2.55%	-17.78%
	Technological opportunities VaR	0.79%	5.37%
	Physical climate VaR	-4.49%	-19.87%
	Aggregated climate VaR	-6.25%	-32.28%
Disorderly	Policy climate VaR	-1.69%	-13.06%
	Technological opportunities VaR	0.39%	2.91%
	Physical climate VaR	-7.06%	-29.58%
	Aggregated climate VaR	-8.36%	-39.73%
Hot house world	Policy climate VaR	-0.32%	-4.00%
	Technological opportunities VaR	0.18%	1.20%
	Physical climate VaR	-7.06%	-29.58%
	Aggregated climate VaR	-7.20%	-32.38%
ITR in degrees Celsius		2	2.8

Source: MSCI and CCLA, 31 March 2023.

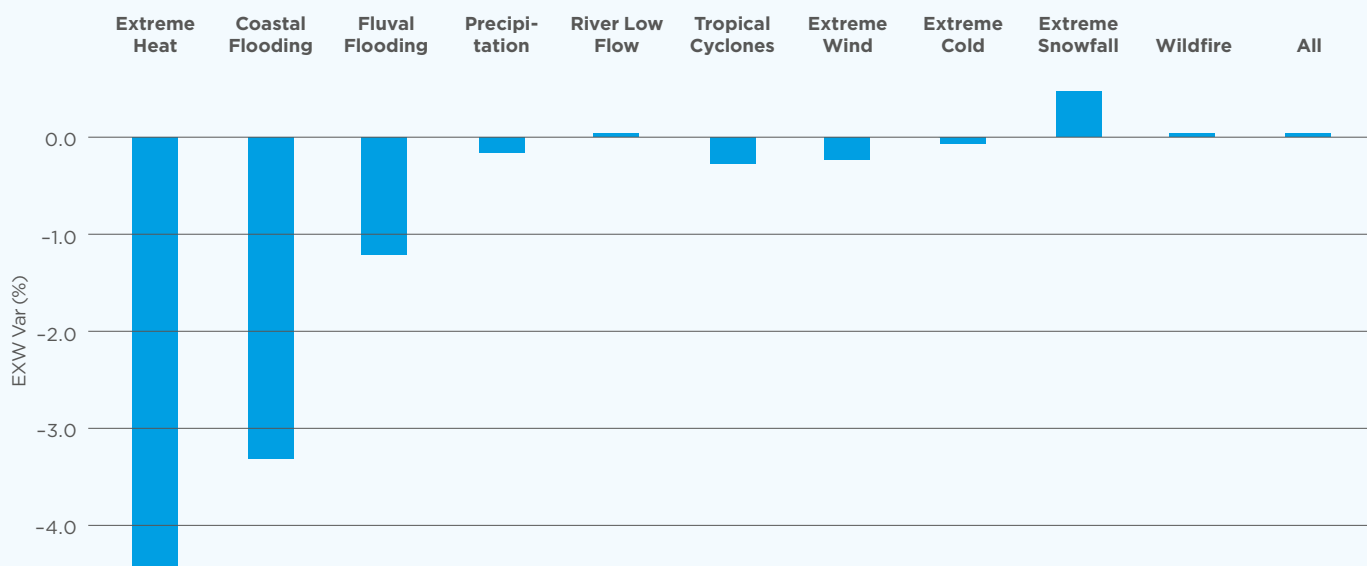
Climate change is going to impact all our assets in one way or another, so preventing further damage to the environment must be a collective effort. Due to our exclusions related to certain areas of fossil fuel, our climate VaR is low across all of our equities compared with the benchmark, however it does not mean that these assets will be exempt from the impacts of climate change. The ITR of 2 degrees Celsius implies that some of the businesses in our portfolio do not align fully with a 1.5- or 2-degrees scenario at present. In an orderly transition, policy risks are somewhat mitigated as there

is more time to implement policy early and take businesses on a journey. In a disorderly transition the delayed and divergent implementation of policy will create more significant costs and risks for businesses, making the transition more expensive as a whole (hence the higher climate VaR). Finally, in a hot house world scenario, while policy risks are mitigated, the physical risks are significant for businesses.

The most significant drivers of impact in our equities is extreme heat and coastal flooding.

PHYSICAL CLIMATE VAR OF THE PORTFOLIO BY HAZARD

The graph below illustrates the change in the physical risk exposure (in %) from today's climate to one in 2100. This is an aggregation of the physical risk across all company facilities of the portfolio companies of the CCLA equities portfolio as at 31 March 2023.



Source: MSCI and CCLA, 31 March 2023.

Our aim as asset managers is to try and mitigate those risks as much as possible through engagement and, where necessary, divestment. However, extreme heat and coastal flooding are systemic risks which are not easily mitigated through divestment due to feedback loops, therefore engagement both at company and government level is crucial.

DEFINITION: FEEDBACK LOOP

In climate change, a feedback loop is something that speeds up or slows down a warming trend.

Scenario analysis limitations

When engaging with our scenario outputs, it is important to consider the following limitations.

- While the 3-degrees Celsius hot house world scenario has the lowest climate VaR, our modelling does not currently enable us to proportionately increase the physical risks associated with a 3-degree scenario. We should therefore expect a more significant physical climate VaR for this scenario.
- The scenarios we model are not forecasts or predictions of the future. We do not assign probabilities to these outcomes and do not compare their likelihood of being realised. We are committed to the Paris Agreement's objective of limiting global temperature increases to 1.5 degrees Celsius, meaning this is our desired outcome.

- The NGFS models do not enable us to look at various socio-economic pathways (SSP). All scenarios are currently based on SSP2, which assumes that society evolves broadly in line with past trends. However, without a just transition we could well end up with SSP4, where highly unequal investments in human capital, combined with increasing disparities in economic opportunity and political power, lead to increasing inequalities and stratification both across and within countries, culminating in social unrest and conflict.
- Nearly all 'Paris aligned' modelled scenarios use some form of negative emissions or carbon capture to get to net zero, because there are some unavoidable emissions. Offsetting schemes and relying on negative emissions can be a distraction from the key priority to reduce absolute emissions. In the short to medium term, we prefer to focus our efforts on real world emissions reduction to our carbon footprint. However, negative emissions have a critical role to play in the long term. New solutions are under development but much more investment and research will be required to scale both technological and nature-based solutions to meet future net zero demands. Access to negative emissions through the offsetting schemes' market also needs stronger international standards, certification and governance to ensure negative emissions are robust, transparent and well regulated.

Data gaps

The lack of detailed carbon data coverage in alternative assets, property, fixed interest and cash makes it difficult to provide the same level of disclosure as for equities. For this reason we do not currently have targets for our other asset classes due to data availability (alternative assets); emerging methodologies (money market instruments); and are currently resolving data collection issues (property and fixed interest).

For example, in our property funds we cannot report on the full extent of carbon emissions as it largely depends on the tenants' voluntary disclosure of energy and water consumption information. This is an ongoing issue that we are tackling with our property managers. We are seeking to engage further with our property managers with the goal of collecting more information from tenants.

In our cash funds we buy certificates of deposits (CDs) from various banks (public, private and state-owned banks). Calculating the carbon footprint of the CDs would require access to the exact use of proceeds which is the banks' proprietary information. Therefore, we cannot provide accurate carbon footprint data for this type of security.

In our alternative assets we expect that third party fund managers will be issuing TCFD-aligned product reports which we will be able to use to enhance our disclosures in future years.

Risk management

Identifying and assessing climate-related risks

The delivery of long-term sustainable returns is a central requirement for our clients. Therefore, we seek to take a long-term approach to investment management. When identifying new opportunities for our equity and multi-asset funds we aim to invest for a minimum of five years and are aware that the time horizon for many of our clients is much longer.

For this reason, responsible investment and stewardship is at the core of our investment approach. Our approach seeks to identify, and mitigate, the highest ESG risks to investment performance within our standard holding period and, to protect our clients into the future, contribute to building a long-term sustainable future.

Equities

We recognise that high carbon and fossil fuel based assets face increased financial risks during the inevitable energy transition. For this reason, we make the following commitments.

Avoid companies that have the most significant, negative, climate impact.

We believe that active ownership, rather than exit, is more likely to increase the pace of climate action. However it is our view that the companies that contribute most to climate change face significant, long-term, financial risks. In some cases, this makes it difficult for us to quantify their fair value. For this reason, we avoid direct investment in the following categories:

- Companies whose business is focused on thermal coal.
- Companies that derive more than 5% of their revenue from the extraction of oil sands.
- Companies that derive more than 10% of their revenue from the extraction, production and/or refining of oil and gas.

Assess the most exposed companies' position against the Paris Climate Change Agreement.

Recognising the potential for regulation, legislation and changing consumer preferences to impact upon future profitability, we assess the decarbonisation plans of those companies that are in carbon intensive sectors, prior to purchase. On the back of this analysis we:

- require the approval of CCLA's Investment Committee prior to investing in companies in the electrical utility and oil and gas sectors that are not assessed as being aligned with the NDCs (nationally determined contributions)
- prioritise for engagement any business that is not assessed as being aligned with a 'below 2 degrees' future. The efficacy of this engagement is monitored by the Investment Committee who can mandate divestment if sufficient progress is not being made.

We review our equities using the Sustainability Accounting Standards Board (SASB) framework which identifies those stocks particularly affected by climate change.

DEFINITION: THERMAL COAL

This is defined as mining companies that generate more than 5% of their revenue from the extraction of energy coal, or produce more than 10 million metric tonnes of coal, or have plans to expand their coal production; and electrical utility and infrastructure companies that intend to expand their coal-fired generation capacity.

Fixed interest

At present we apply the same climate change-related screens to our fixed interest portfolio as we do to our equity portfolio. Our fixed income funds will not purchase the corporate debt of companies that derive more than 10% of their revenue from oil and gas refining and production, or of companies that derive more than 5% of their revenue from the extraction of energy coal or oil sands.

Property

We believe that sustainability 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. Whilst it is easy to think of sustainable property investing as building new, energy efficient facilities, we have consciously avoided new and modern investment options. Such buildings can cost more to run, and depreciation is higher. Instead, our strategy has been to identify underrated assets, often in good locations, and upgrade their environmental and social attributes and performance and, in so doing, their value.

Prior to any purchase we consider:

- Environmental risk issues that may manifest as liabilities, for example contaminated land, flood risk, presence of hazardous substances, etc.
- 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.

- The ability to drive improvements through refurbishment. In addition, we review all elements of the transaction to avoid issues related to corruption and bribery.
- Any regulatory development concerning the leasing and letting of commercial buildings in the UK.

Where we have concerns, we alter the valuation that we are willing to pay for the property; develop an action plan for future refurbishments; or, in extremis, abandon the proposed investment. 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 (BNP Paribas Real Estate) to look after our properties on a day-to-day basis. As part of this work they are tasked with:

- Monitoring and setting targets for the reduction of energy use, water consumption, waste and CO2 emissions.
- Procuring energy from renewable sources.
- Conducting proactive occupier engagement, including tenant surveys, covering a variety of ESG factors, at least every two years.
- Minimising health and safety incidents.
- Monitoring of any environmental risks identified on purchase.

In order to implement this policy our third-party property manager reports regularly on progress against the targets we have established.

Our approach to responsible investment in property is still progressing.

Alternatives and third-party funds

Within our clients' portfolios, alternative investments provide diversification against equity-related risks and generate cashflow and real returns that contribute towards meeting the portfolios' capital and income objectives. We also view investment in alternatives as a route to funding solutions to the sustainability challenges facing our communities. Our alternative investments comprise infrastructure assets (general infrastructure, energy-related infrastructure and social infrastructure); contractual income assets (which receive contracted cashflows over a specific period and are typically secured against assets, for example, loans and mortgages); and private equity assets.

Sustainability considerations

There are a wide number of business areas that we monitor based on our funds' ethical restrictions, including the extraction of energy coal or tar sands and/or the extraction/refining of other fossil fuels (see our [equity exclusions above, for more detail](#)). We judge a company to be involved in such activity if more than 10% of their revenue is derived from it. (We currently use data provided by MSCI to make these judgements.)

We require portfolio managers of alternative asset funds to calculate the revenue that the fund derives (including rental income) from each source independently.

Gas

Within third party infrastructure funds, energy-related infrastructure sometimes includes midstream assets. This covers infrastructure assets and the operating companies that perform transportation

and storage services for natural gas and petroleum products. These projects are distinct from 'upstream', which represents drilling and production activities; and downstream, which refers to the preparation and distribution of products to end users in industrial and residential settings. We have a policy to cap revenue from midstream gas at 25% and we do not invest in assets with more than 10% revenue from the extraction, production and refining of oil and gas.

To achieve net-zero energy (NZE) the International Energy Agency (IEA) forecasts a huge increase in renewable energy production with the corresponding significant displacement of all fossil fuels, including natural gas. However, based on governments' current net-zero pledges, the IEA forms an announced pledges scenario (APS) that assumes net-zero emissions objectives are achieved but that it does not necessarily mean net-zero energy, and instead considers an offset from increased carbon capture efforts.

In this scenario, while coal and oil will fall sharply, natural gas supply will remain broadly stable through to 2050. This scenario optimistically assumes net zero is achieved even when there are not policies currently in place to support.

Many factors affect to what extent, and for how long, natural gas can retain a place in the energy mix when clean energy transitions accelerate, and the outlook is far from uniform across different countries and regions. Under each of the IEA's scenarios, natural gas maintains a similar level of energy supply until 2030, suggesting the medium-term obsolescence risk of the energy type is low.

We therefore see gas as a transitional fuel on the path to net zero and have accordingly restricted the revenue derived from such assets.

Cash and money market instruments

Our deposit funds are restricted to specific types of debt-related securities including time deposits, notice accounts, and certificate of deposits.

We monitor counter parties' exposure to financing climate change. The approach is based on Task Force on Climate-related Financial Disclosures (TCFD) reporting. We note which banks are supporters of TCFD.

A similar approach is taken to Equator Principles supporters. The Equator Principles (EP) are intended to serve as a common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risks when financing projects.

Additional data points are drawn from MSCI ESG Manager: Financing Environmental Impact (Score and Quartile).

Portfolio level risk control

We seek to control the aggregate levels of climate risk within our clients' portfolios. We implement strict rules to ensure that the aggregate carbon footprint of all CCLA equity portfolios is not higher than that of the MSCI World Index.

Managing climate-related risks

In the long term, net-zero portfolios need to be achieved through real world emissions reductions – this is the only way to stop the negative impact of climate change.

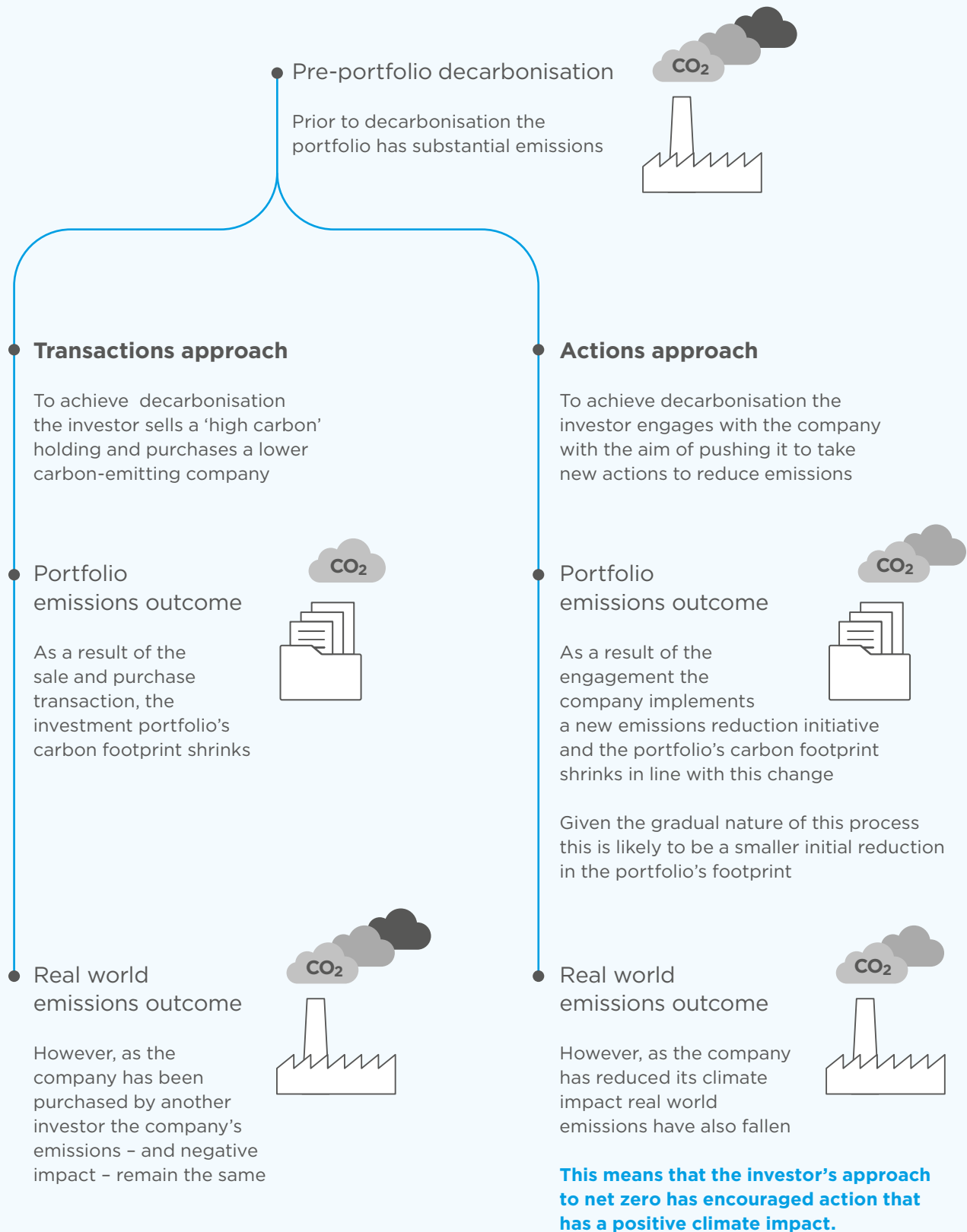
We manage climate-related risks through engagement. We call this approach 'actions, not transactions'.

By this we mean that, where possible, portfolio emissions should be reduced with tools, such as engagement, to encourage investee companies to lower their emissions in line with a science-based decarbonisation target (action); rather than lowering our portfolio footprint by selling our higher carbon companies and purchasing lower carbon ones (transactions).

We believe that although selling high carbon and purchasing low carbon businesses would cut portfolio emissions in line with a potential net-zero target, it would have little or no climate impact. Instead, these businesses would be bought by other investors and would continue to emit at the same level. Therefore, while 'portfolio emissions' would be lower, 'real world' emissions would continue to be the same.

However, through engagement, and other tools at the disposal of investors, the investor – as a part owner – can encourage the company to cut emissions. When successful, this not only reduces the portfolio's carbon footprint but also reduces real world emissions, resulting in a positive impact in the fight against climate change. This is set out in the diagram on the next page.

ACTIONS, NOT TRANSACTIONS



Stewardship and the low carbon transition

Investors can be highly influential in encouraging companies to take steps to reduce their own environmental impacts. We have a very long track record of engaging companies about climate change and, in 2012, we were instrumental in bringing the investment industry together on this topic through Climate Action 100+'s forerunner 'Aiming for A'.

All engagement activity is consistent across all listed equity funds and multi-asset funds holding listed equities (nine funds in total) and does not differ from fund to fund. It is monitored by CCLA's Investment Committee and poor corporate responses can, in extreme cases, lead to us reconsidering continued investment.

To ensure its effectiveness, we work in partnership with other investors, through direct dialogue with businesses, and through our approach to voting at companies' annual general meetings (AGMs).

Our overall aim for real world impact is to reduce corporate emissions globally. CCLA considers it essential that companies should make credible decarbonisation commitments based in science. This means ensuring emissions overall stay within the global carbon budget for remaining within a 1.5 degrees Celsius temperature rise. We aim for effective engagement with companies to ensure they have credible decarbonisation plans, and to assess their performance against such plans and push for continued progress. This is both in collaboration with other investors and directly.

We have identified the highest 30 greenhouse gas-emitting portfolio companies using absolute Scope 1 and 2 and estimated Scope 3 emissions across portfolios. Our primary selection is those companies where we can leverage engagement through participation in existing collaborative initiatives, with CA100+, IIGCC and CERES/ICCR. Currently this is with twelve of the largest absolute emitters in CCLA's portfolio of equities in line with our objective of real world impact. This focus will also ensure that resources can be available for intensive engagement when required.

Primary engagement focus

Systemic priorities: We participate in collaborative engagement with portfolio companies that are of systemic importance to the transition to net zero. We undertake engagement through the following initiatives:

- **Climate Action 100+:** CA100+ aims to ensure the world's largest corporate greenhouse gas (GHG) emitters take necessary action on climate change. The initiative has 166 focus companies which in total account for up to 80% of global corporate industrial GHG emissions. The collaborative engagement group counts 700 asset managers and owners responsible for over \$68 trillion in assets under management⁸.
- **IIGCC Net Zero Engagement Initiative (NZEI):** CCLA's strategic engagement with other high impact companies in Europe has been extended through this initiative which prioritises engagement with selected companies based on target-setting and transition plans. The initiative primarily focuses on demand side and smaller supply chain companies that are critical to the overall transition to net zero.

Financed emissions: CCLA recognise the role that the financial services industry plays through the provision of finance to high emission projects. Engagement includes a focus on bank lending, financing and investing activities that affect the pace of the systemic change required. We have initially prioritised the two US-listed banks in the ‘top 30’ emitters that are covered by CERES and ICCR banks working group. In 2023 this work will be extended to cover all deposit fund counterparties.

Secondary engagement focus

Largest contributors: For other ‘top 30’ emitting companies, CCLA will engage directly. This can be in advance of the AGM linked to voting outcomes, or otherwise, with engagement focused on setting science-based targets and demonstration of progress against these. Engagement can be developed to meet specific challenges for the company and be drawn from initiatives including RE100, Travel Smart and the Science-based Targets initiative (SBTi).

Portfolio coverage and baseline

disclosure: Given that climate change will affect all companies in our portfolios, we ensure that engagement with

portfolio companies beyond the primary targets is undertaken through a variety of approaches. This includes where there are existing investor collaborations covering these companies, such as on transition plan voting (Say on Climate) and the Carbon Disclosure Project non-disclosure initiative.

In addition, our voting positions are aligned with engagement and are used to complement our ‘better environment’ work. Our shareholder [voting guidelines](#) setting these out are updated annually. On climate, this includes expected commitments from company directors for aligning company strategy with the Paris Agreement, and expected disclosures in company reports and accounts. Correspondence is undertaken with company directors where management proposals or positions are not supported and indicates why. Our [voting guidelines](#) and records can be found on our website: [Voting records](#).

For real impact, in line with other thematic engagement strategies, there is the amplifying effect where we engage with companies not held directly, through initiatives such as Say on Climate and CDP science-based target initiative.

DEFINITIONS

RE100 is a global initiative bringing together the world’s most influential businesses committed to 100% renewable electricity. See www.there100.org

‘Travel Smart’ is a global campaign led by Transport & Environment (T&E) within a coalition of partners across Europe, North America and Asia aiming at reducing corporate air

travel emissions, as the most effective way to significantly reduce aviation’s climate impacts in the present decade. See <https://travelsmartcampaign.org>

SBTi mobilises the private sector to take the lead on urgent climate action by guiding companies in science-based target setting. See <https://sciencebasedtargets.org>

Supporting progressive legislation

Progressive regulation and legislation will play a vital role in accelerating the transition to net zero. CCLA is represented on the Delivery Group of the UK government's Transition Plan Taskforce (TPT) to help develop the 'gold standard' for transition plans and to strengthen disclosure requirements across the UK economy. Given that the TPT will set the guidance for mandatory disclosure, having the appropriate level of ambition and associated rules is critical, so we prioritise this policy involvement. In the UK context we respond to relevant government consultations to promote rigorous climate and environmental regulation. In choosing which consultations to respond to, we focus on those that have systemic importance and where our voice can add value.

As we invest globally, we also participate in other markets where we can influence systemic change. CCLA works directly with the private finance workstream of the UK and Canadian governments'

Powering Past Coal Alliance (PPCA) to develop and promote the PPCA Finance Principles. These set out how to align coal power-related financial services and investments with the goals of the Paris Agreement. We also pursue progressive legislation through our membership of the Institutional Investors Group on Climate Change (IIGCC), which has global reach.

As a member of IIGCC, the UK Sustainable Investment and Finance Association, and the Financing a Just Transition Alliance (FJTA), we support a number of collective calls for action. This has included the promotion of the Just Transition to the UK Prime Minister, and supporting the 2021 Global Investor Statement to Governments on the Climate Crisis, calling for progressive policy in the run up to COP 26.

Looking forward, we will continue our direct and indirect policy activity and take further action to support the charitable sector in its efforts to move towards net-zero emissions.

SUPPORTING THE 'JUST TRANSITION'

Addressing climate change is often regarded as an environmental issue. However, the transition to a net-zero emission economy will have profound impact on our society. One area likely to be heavily impacted is jobs in the traditional energy and other heavy industry sectors. As the energy transition continues, the University of Leeds estimates that one in five UK jobs will be impacted¹².

For this reason, we consider climate change from a social, as well as environmental, perspective and support the FJTA. This is a group of financial services companies, co-ordinated by the Grantham Research Institute at

the London School of Economics, who recognise the importance of the energy transition providing positive results for workers and communities.

As part of this work, we supported a letter to the UK Prime Minister, requesting that the Just Transition is at the heart of the UK Government's 'Net Zero' strategy and we were pleased to see it feature prominently at the G7 summit in Cornwall. For climate action to be a success, we believe that we have to leave behind carbon intensive assets but that as a society we can't afford to desert the people who work within those industries.

ENGAGEMENT CASE STUDIES

We have an unrivalled track record as a catalyst for investor action on climate change. While we no longer invest directly in any conventional oil and gas companies, we continue to push ahead on efforts to mitigate climate change.



2007

Early signatory to UN Principles for Responsible Investment



2012

Launched Aiming for A shareholder advocacy campaign, which inspired Climate Action 100+



2015

Aiming for A filed the first successful climate-related shareholder resolutions at BP and Shell

2010

Started climate action pathway with carbon disclosure watch list

2013

The COIF Charities Ethical Fund restricted investment in thermal coal

CCLA became a cornerstone investor in the Bluefield Solar Income Fund



2016

Successful strategic resilience resolutions at Anglo American, Glencore and Rio Tinto



GLENCORE

RioTinto



2017

Aiming for A becomes Climate Action 100+ and CCLA is a founding member

CCLA joined Powering Past Coal Alliance



2020

Seed investors of the Clean Growth Fund with the UK government

CCLA sold remaining direct holdings in oil and gas extraction companies



CCLA's Helen Wildsmith won the prestigious Joan Bavaria Award for her pioneering work on responsible investment and climate action

CCLA joined Financing a Just Transition Alliance

2022

CCLA co-filed shareholder resolution at Bank of America on climate transition plans

Helen Wildsmith joined the Delivery Group of the government's UK Transition Plan Taskforce as an investment sector expert on mining and electrical utilities

2019

The COIF Charities Ethical Fund restricted direct investment in oil and gas extraction companies

Following our engagement, Duke Energy committed to net-zero emissions by 2050



CCLA worked with UK and Canadian governments to launch the Powering Past Coal finance principles

2021

CCLA pledged to achieve net zero by 2050

CCLA was the lead investor for Unilever on behalf of Climate Action 100+

Following dialogue Unilever was the first FTSE 100 company to introduce a 'Say on Climate' vote



Founding signatory of IIGCC Net Zero Asset Managers initiative



NET ZERO ASSET MANAGERS INITIATIVE

NextEra Energy responded to engagement by increasing climate disclosures



Integration of climate-related risk management into CCLA's enterprise risk management framework

Addressing the risks and opportunities associated with climate change and the those associated with the transition to a low carbon economy is a key responsible investment priority. We recognise that different companies and sectors will be impacted at different times and to different extents.

We manage our business to align with the mitigation of climate change and to be resilient to the risk of different climate outcomes. Our key risk monitoring metrics are:

- Investment portfolio-related metrics (Portfolio Carbon measures and Climate VaR)
- Operational carbon footprint.

Our governance structure (see ['Governance'](#), above) is used to support CCLA's understanding and management of the risks from climate change. This, alongside climate scenario analysis informs our risk management framework.

We believe that climate change poses a systemic risk to investment markets. While excluding the most carbon-intensive companies from a portfolio may boost its resilience in a changing world, almost all assets will be compromised if action to mitigate climate change is not accelerated. Investors therefore have a fiduciary duty to drive this work forward.

Metrics and targets

Climate risk assessment metrics

Carbon footprint

We routinely monitor our equity portfolios' performance against the benchmark's (MSCI World Index) carbon footprint. This ensures that our portfolios adequately reflect our concerns about climate change. We use the weighted average carbon intensity as our metric which includes GHG (greenhouse gas) Scope 1 and Scope 2 emissions.

Restrictions

We use the following metrics to restrict investments in carbon intensive industries.

Industry	Restriction policy
Utilities	Extractives where CCLA does not believe engagement is possible, and electricity generation that have not demonstrated the ability to align their business with the Paris Climate Change Agreement (as determined by CCLA)
Oil and gas	Companies that generate 10% and/or more than 10% of revenues from extraction, production or refining
Thermal coal	5% and/or more than 5% of turnover
Tar sands	5% and/or more than 5% of turnover

In carbon intensive sectors, we assess decarbonisation plans prior to purchase. This applies to companies in the oil and gas, electrical utilities, airlines, aluminium, autos, cement, shipping and steel sectors. The formal check is only conducted on companies that are covered by the Transition Pathway Initiative (TPI). This means that companies are assessed against sector-specific decarbonisation requirements and a variety of different energy transition scenarios.

To provide further assurance, and set a minimum standard, companies in the electrical utility and oil and gas that are not assessed as being aligned with the NDCs (that form part of the Paris Agreement) require the approval of CCLA's Investment Committee prior to purchase. This is only granted where we believe that there are errors in the data or if we are pleased to lead on companies outside the coverage of TPI are evaluated on a best endeavours basis.

In addition, we use the TPI tool to inform our engagement for the companies in scope of the IIGCC's Net Zero Engagement Initiative. In the banking sector we use the TPI Banking tool to inform our engagement plans; for in-scope companies, we use the Climate Action 100+ Benchmark.

Due to the particular nature of the challenges facing the oil and gas industry, when looking at their future revenue expectations we amend company valuations to reflect anticipated long-term changes in energy demand during the low-carbon transition. This makes the sector less attractive in our investment model and is a contributing factor in our current decision to not invest directly in the sector. In addition, most companies in this sector are not aligned with the Paris Agreement.

Greenhouse gas emissions: Scope 1, 2 and 3

In our investments

Our investment portfolio consists of listed equities, private equity, contractual income, property and alternative investments as well as fixed interest.

At present, due to data availability and coverage we are only able to provide GHG emissions data for our equity holdings.

All Scope 3 emissions are estimated using MSCI's calculation models.

Climate data point (MSCI) as at 31 March 2023	Unit	CCLA equities	MSCI ACWI IMI
Carbon emissions (footprint – Scope 1 and 2)	tCO ₂ e/\$m invested	15.10	282.20
Total carbon emissions (Scope 1 and 2)	tCO ₂ e	15,127.50	282,159.00
Scope 1	tCO ₂ e	9,545.45	234,474.13
Scope 2	tCO ₂ e	5,582.05	47,684.87
Scope 3 (upstream and downstream)	tCO ₂ e	158,956.10	1,123,877.70
Carbon intensity (Scope 1 and 2)	tCO ₂ e/\$m sales	51.00	254.10
Weighted average carbon intensity (WACI) (Scope 1 and 2)	tCO ₂ e/\$m sales	51.70	274.80
Financed carbon emissions (Scope 1 and 2)	tCO ₂ e/\$m invested	10.00	127.70
Financed carbon emissions (Scope 3 – upstream)	CO ₂ e/\$m invested	52.80	185.10
Financed carbon emissions (Scope 3 – downstream)	tCO ₂ e/\$m invested	56.60	448.00

Our investments are lower in relative emissions and emissions intensity than the broader investable market which are consistent with our fossil fuel exclusion policies.

In our own operations

As part of our environmental management system verified by ISO 14001:2015, we use a third-party consultancy, Green Element, to calculate our carbon footprint. Calculating a carbon footprint is important as it helps identify those areas of our operations which produce the most emissions; to set achievable targets; and implement a suitable action plan. In this way we can help to limit the effects of climate change, improve our efficiency and drive down operational costs.

The organisational boundary of CCLA's carbon footprint is:

- electricity, water and waste
- procurement: paper usage, IT equipment and furniture purchased by CCLA
- business travel: company car mileage, rail and air miles
- employee commuting
- emissions data related to working from home.

CCLA's footprint has increased by 147% in the financial year 2022 compared to the financial year 2021. This is mainly due to the increase in scope and collection of new data points in the most recent reporting year.

In 2022, compared to 2021, we expanded the scope to include working from home emissions; additional aspects of business travel (air, rail, hotel); an improved commuting methodology; and IT hardware. The increase in scope makes a fair comparison between the two reporting years difficult.

The three main carbon hotspots identified were procurement, commuting and working from home and business travel. We have detailed our emissions in the [appendices](#).

Climate targets: a work in progress

In our own operations

In order to guide us on our net zero journey, we have started modelling emissions reductions scenarios based on our current scope of emissions data collection. We have not yet formally set emissions reduction targets, as data collection and our methodology evolve.

- **Scenario 1 – Short-term emissions reduction targets:** short-term targets, which are intensity-based (rather than absolute), require CCLA to cut their emissions by 7% year-on-year over the next 10-year period (from financial year 2022). It is beneficial to normalise a carbon footprint and set an intensity target to allow a fair comparison year-on-year that takes business growth into account.

- **Scenario 2 – Long-term emissions**

reduction targets: long-term targets aim to guide CCLA towards reaching net zero by, at latest, 2050 and limit global warming to only 1.5 degrees Celsius above pre-industrial levels. Meeting net zero means that CCLA would have reduced its absolute baseline emissions (not intensity) by more than 90% by the target year and then would remove from the atmosphere the remaining 10% (maximum) of emissions, referred to as the residual, using nature- or technology-based permanent carbon removals and storage (e.g. direct air capture). As hitting net zero by 2050 is the latest possible date from where we can limit warming to 1.5 degrees, we have also included trajectories for meeting the target by 2040 and 2045.

	2040	2045	2050
Absolute yearly reduction (tCO ₂ e)	16.32	12.92	10.69
% Reduction needed annually	4.74%	3.75%	3.10%

In our investments

Our approach to setting targets is based on the scientific findings from the IPCC *Special Report on Global Warming of 1.5°C*⁹ and the UNEP Gap Report (2020)¹⁰, combined with information provided by investor networks' publication of Net Zero Target Frameworks. In developing these targets, we seek to acknowledge the systemic nature of climate change and the developing nature of the science and methodologies used to develop and define alignment to 1.5 degrees Celsius.

The first, and upper, threshold is a non-linear decarbonisation rate representing a 7.6% decarbonisation rate that is aligned with the EU's requirements for Paris Aligned Benchmarks and derived from the UNEP Gap Report (2020) that also utilises a 2018 base year. The second, more ambitious threshold is derived from the absolute global emissions reductions required by 2030 to approximately halve global emissions by 2030 and reach net zero by 2050, as set out in the IPCC Special Report, from a 2018 base year. This pathway has been altered to represent a combination of example pathways in the IPCC *Special Report* to ultimately target a 50% reduction in emissions by 2025.

The shaded area between these two decarbonisation rates reflects that the definition and development of 1.5 degree Celsius-aligned scenarios is still evolving and that we aim to use the best available

methodology to inform the appropriate level of a portfolio emissions ceiling.

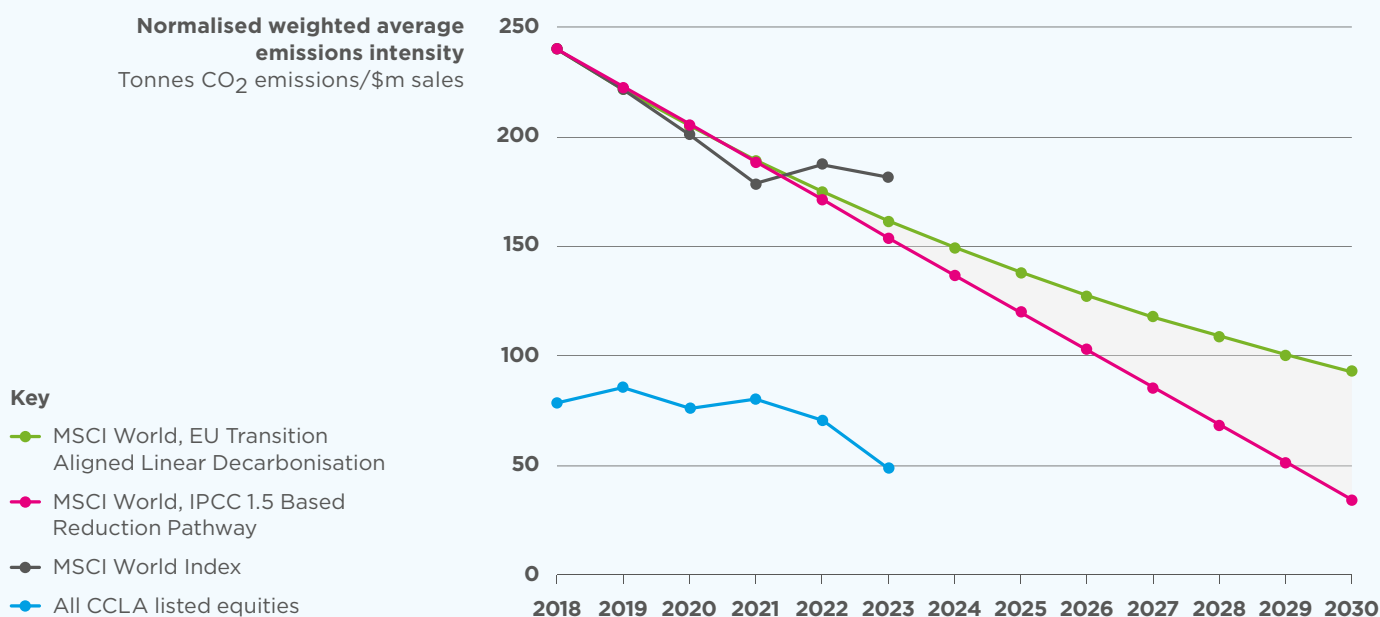
In addition to these two portfolio decarbonisation pathways it is material to acknowledge that these targets are subject to recalculation on an ad-hoc basis in the event of material developments in climate science and the underlying assumptions and methodologies of 1.5 degree Celsius-aligned scenarios so that these targets remain representative of the best available science.

In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net-zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement and ensure a just transition.

SETTING NET-ZERO TARGETS

Normalised weighted average emissions intensity
Tonnes CO₂ emissions/\$m sales

Weighted average intensity portfolio ceiling



Source: IPCC, MSCI and CCLA, 31 March 2023.

Closing remarks

This comprehensive report reflects our steadfast commitment provide clear, comprehensive and high-quality information on the impacts of climate change.

Through the integration of robust governance structures, strategic decision-making processes, rigorous risk management practices, and transparent metrics and targets, we have endeavoured to provide stakeholders with a clear understanding of our approach to managing climate-related risks and opportunities.

Through this report we have enhanced transparency, accountability, and resilience in our organization. We recognise that climate change presents both challenges and opportunities, and we remain committed to addressing them proactively. Our focus on disclosure and engagement with stakeholders reflects our commitment to dialogue, collaboration, and collective action in addressing the urgent climate crisis.

We acknowledge that the journey towards comprehensive climate-related financial disclosures is an ongoing process, and we are dedicated to continuously improving our practices.

Together, we can build a sustainable future that prioritizes working towards a resilient, low-carbon economy that benefits both our organization and society as a whole.

Appendices

Climate VaR and carbon data for our funds

The below table shows the climate VaR and carbon data for our funds as at 31 March 2023. Only equities are covered, we do not have data for other asset classes. Please refer to the 'Data gaps' section, above, for more information.

All Scope 3 emissions are estimated using MSCI's calculation models.

Asset class				Equities				Multi-asset				
Climate data point (MSCI)	Unit	CCLA equities	MSCI ACWI IMI	COIF Charities Global Equity Income Fund	The CBF Church of England Global Equity Income Fund	The CBF Church of England UK Equity Fund	CCLA Better World Global Equity Fund	COIF Charities Investment Fund	COIF Charities Ethical Investment Fund	Catholic Investment Fund	The CBF Church of England Investment Fund	Diversified Income Fund
Carbon emissions (footprint – Scope 1 and 2)	tCO2e/\$m invested	15.10	282.20	10.7	10.6	31.7	10.6	10.4	10.3	10.7	10.3	10.4
Total carbon emissions (Scope 1 and 2)	tCO2e	15,127.50	282,159.00	10656	10558.3	31,657.40	10558.3	10414	10257.7	10,741.50	10,309.30	10,439.40
Scope 3	tCO2e	158,956.10	1,123,877.70	86869	78521.4	313,387.60	78521.4	84915.7	75835.6	82586.6	76880.1	87739.4
Carbon intensity (Scope 1 and 2)	tCO2e/\$m sales	51.00	254.10	48.8	49	84.2	49	48.8	47.8	50.6	48.9	46.6
Weighted average carbon intensity (WACI)	tCO2e/\$m sales	51.70	274.80	65.7	66.8	60.2	66.8	64.8	65.6	66.6	65.8	63.8
Financed carbon emissions (Scope 1 and 2)	tCO2e/\$m invested	10.00	127.70	7.4	7.3	20.5	7.3	7.2	7.1	7.4	7.1	7.3
Financed carbon emissions (Scope 3 – upstream)	tCO2e/\$m invested	52.80	185.10	43.5	40.9	73.1	40.9	43	40	42.5	40.6	45.4
Financed carbon emissions (Scope 3 – downstream)	tCO2e/\$m invested	56.60	448.00	21.2	17	132.5	17	20.5	16.2	18.6	16.5	20.3

Climate transition scenario	Climate Value at Risk	CCLA equities	MSCI ACWI IMI	COIF Charities Global Equity Income Fund	The CBF Church of England Global Equity Income Fund	The CBF Church of England UK Equity Fund	CCLA Better World Global Equity Fund	COIF Charities Investment Fund	COIF Charities Ethical Investment Fund	Catholic Investment Fund	The CBF Church of England Investment Fund	Diversified Income Fund
Orderly	Policy climate VaR	-2.55%	-17.78%	-1.69%	-1.57%	-4.56%	-1.57%	-1.66%	-1.53%	-1.68%	-1.55%	-1.73%
	Technological opportunities VaR	0.79%	5.37%	0.23%	0.11%	2.39%	0.11%	0.22%	0.11%	0.11%	0.11%	0.22%
	Physical climate VaR	-4.49%	-19.87%	-4.14%	-3.73%	-3.04%	-3.73%	-4.20%	-3.72%	4.01%	-3.82%	-4.23%
	Aggregated climate VaR	-6.25%	-32.28%	-5.60%	-5.19%	-5.21%	-5.19%	-5.64%	-5.14%	2.44%	-5.26%	-5.74%
Disorderly	Policy climate VaR	-1.69%	-13.06%	-1.13%	-1.05%	-3.08%	-1.05%	-1.11%	-1.02%	-1.12%	-1.03%	-1.15%
	Technological opportunities VaR	0.39%	2.91%	0.16%	0.06%	1.08%	0.06%	0.15%	0.06%	0.05%	0.05%	0.15%
	Physical climate VaR	-7.06%	-29.58%	-4.14%	-3.73%	-3.04%	-3.73%	-4.20%	-3.72%	-4.01%	-3.82%	-4.23%
	Aggregated climate VaR	-8.36%	-39.73%	-5.11%	-4.72%	-5.04%	-4.72%	-5.16%	-4.68%	-5.08%	-4.80%	-5.23%
Hot house world	Policy climate VaR	-0.32%	-4.00%	-0.30%	-0.29%	-0.50%	-0.29%	-0.29%	-0.26%	-0.29%	-0.29%	-0.29%
	Technological opportunities VaR	0.18%	1.20%	0.04%	0.02%	0.57%	0.02%	0.04%	0.02%	0.02%	0.02%	0.04%
	Physical climate VaR	-7.06%	-29.58%	-6.70%	-6.30%	-5.03%	-6.30%	-6.74%	-6.28%	-6.28%	-6.36%	-6.53%
	Aggregated climate VaR	-7.20%	-32.38%	-6.96%	-6.57%	-4.96%	-6.57%	-6.99%	-6.52%	-6.55%	-6.63%	-6.78%
Implied temperature rise in degrees Celsius		2	2.8	1.8	1.7	2.3	1.7	1.8	1.7	1.8	1.7	1.7

Total carbon emissions CCLA (operations for the 2021/2022 financial year)

Activity		GHG emissions (tCO ₂ e)				Normalised emissions (tCO ₂ e/ full-time employee)
		Scope 1	Scope 2	Scope 3	Total	
Business travel	Air travel	-	-	1.78	1.78	0.01
	Car hire	-	-	0.08	0.08	0.00
	Expensed mileage	-	-	4.03	4.03	0.02
	Hotel stays	-	-	0.64	0.64	0.00
	Rail travel	-	-	10.11	10.11	0.06
	Subsistence	-	-	1.04	1.04	0.01
	Taxi travel	-	-	0.03	0.03	0.00
Commuting	-	-	-	64.55	64.55	0.36
Electricity	Location based*	-	30.36	10.59	40.96	0.23
	Market based*	-	-	-	-	-
Hospitality	Office food and drink	-	-	1.14	1.14	0.01
	Client and staff entertainment	-	-	83.69	83.69	0.47
IT equipment and furniture purchases	IT	-	-	49.70	49.70	0.28
	Furniture	-	-	65.18	65.18	0.37
Paper	-	-	-	1.54	1.54	0.01
Waste	Food	-	-	0.00	0.00	0.00
	General	-	-	0.01	0.01	0.00
	Glass	-	-	0.00	0.00	0.00
	Mixed recycling	-	-	0.00	0.00	0.00
	Paper and cardboard	-	-	0.02	0.02	0.00
Water usage	-	-	-	0.12	0.12	0.00
Working from home	-	-	-	60.81	60.81	0.34
Total (location based)	-	-	30.36	355.06	385.42	2.18
Total (market based)	-	-	-	344.47	344.47	1.95

*Market-based calculations use CCLA's specific electricity fuel mixes to calculate GHG emissions, while location-based calculations use emissions per kilowatt hour (kWh) based on the national grid. Dual reporting is recommended in the GHG Protocol Corporate Reporting Standard.

Net Zero Asset Managers' initiative

The Net Zero Asset Managers commitment	Equities
a) Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net-zero emissions by 2050 or sooner across all assets under management (AUM)	We work in partnership with our clients through client feedback and to deliver client decarbonisation goals
b) Set an interim target for the proportion of assets to be managed in line with the attainment of net-zero emissions by 2050 or sooner	Refer to our target setting methodology in the section ' In our investments ', above
c) Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included	We are currently working on climate targets to encompass other asset classes. Our next review will be in 2026. See ' Data gaps ', above
In order to fulfil these commitments, we will do the following:	
1. Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the IPCC Special Report on Global Warming of 1.5°C	Refer to our target setting methodology in the section ' In our investments ', above
2. Take account of portfolio Scope 1 and 2 emissions and, to the extent possible, material portfolio Scope 3 emissions	Refer to our emissions disclosures. See the section ' In our investments ', above
3. Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest	Refer to the section ' Managing climate-related risks ', above
4. If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions	We do not use offsets at present
5. As required, create investment products aligned with net-zero emissions by 2050 and facilitate increased investment in climate solutions	Please refer to the ' Risk management ' section which explains how our products aim to align with net-zero emissions by 2050
Across all assets under management	
6. Provide asset owner clients with information and analytics on net-zero investing and climate risk and opportunity	We provide clients with information on request and publish climate-related information in our sustainability outcomes report and report annually, where we have available data
7. Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net-zero emissions by 2050 or sooner	Please refer to our voting guidelines and the section ' Managing climate-related risks ', above
8. Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net-zero emissions by 2050 or sooner	We engage with our data providers on our needs and requirements regularly. We work in partnership with our providers to create products and services with the aim to achieving global net-zero emissions by 2050 or sooner
9. Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net-zero emissions by 2050 or sooner	Our work through the Powering Past Coal Alliance, the Financing a Just Transition Alliance and the UK Transition Plan Taskforce is in line with supporting global net-zero emissions by 2050 or sooner

Net Zero Asset Managers' initiative (continued)

Accountability	
10. Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria ¹¹ , and action is being taken in line with the commitments made here	This report fulfils the requirement to publish TCFD-like disclosures. Our membership with NZAM and the information in this document are in line with the UN Race to Zero Criteria. This report outlines our pledge, our plan, how we proceed and the publication of progress
We recognise collaborative investor initiatives including the Investor Agenda and its partner organisations (AIGCC, CDP, Ceres, IGCC, IIGCC, PRI, UNEP FI), Climate Action 100+, Climate League 2030, Paris Aligned Investment Initiative, Science Based Targets Initiative for Financial Institutions, UN-convened Net Zero Asset Owner Alliance, among others, which are developing methodologies and supporting investors to take action towards net-zero emissions. We will collaborate with each other and other investors via such initiatives so that investors have access to best practice, robust and science-based approaches and standardised methodologies, and improved data, through which to deliver these commitments	We collaborate with such organisations to deliver these commitments. See the section ' Climate-related risks and opportunities over the short, medium and long term ', above
We also acknowledge that the scope for asset managers to invest for net zero and to meet the commitments set forth above depends on the mandates agreed with clients and clients' and managers' regulatory environments. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their NDCs, and in the context of our legal duties to clients and unless otherwise prohibited by applicable law. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. Where our ability to align our approach to investment with the goal of net-zero emissions by 2050 is, today, constrained, we commit to embark with determination and ambition on a journey, and to challenge and seek to overcome the constraints we face	Please refer to the section ' Data gaps ', above

References

- 1 The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions. Online at www.netzeroassetmanagers.org
- 2 Intergovernmental Panel on Climate Change (IPCC), *Special Report: Global Warming of 1.5°C*. Online at www.ipcc.ch/sr15
- 3 Paris Agreement (2015). Online at https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en
- 4 World Economic Forum (WEF) (2023), *The Global Risks Report 2023*. Online at https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf
- 5 World Economic Forum (WEF) (2023), *The Global Risks Report 2023*. Online at www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf
- 6 OECD, 'Financing climate futures: rethinking infrastructure. Policy highlights'. Online at www.oecd.org/environment/cc/climate-futures/policy-highlights-financing-climate-futures.pdf
- 7 Data Provider: MSCI. Scenarios: REMIND NGFS
- 8 Climate Action 100+, 'About Climate Action 100+'. Online at www.climateaction100.org/about
- 9 Intergovernmental Panel on Climate Change (IPCC), *Special Report: Global Warming of 1.5°C*. Online at www.ipcc.ch/sr15
- 10 UN Environment Programme (2020), *Emissions Gap Report 2020*. Online at www.unep.org/emissions-gap-report-2020
- 11 UN Race to Zero, 'Criteria'. Online at <https://climatechampions.unfccc.int/system/criteria>
- 12 University of Leeds (2021), 'Predicting how the transition to net-zero could affect UK jobs across the country'. Online at <https://environment.leeds.ac.uk/see/news/article/5394/predicting-how-the-transition-to-net-zero-could-affect-uk-jobs-across-the-country>

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