Climate change poses one of the greatest threats to our planet's environment and communities. There is convincing evidence that it has already led to changes to sea levels, damage to eco-systems and exacerbated extreme weather patterns. We believe that there's a causal link between the burning of fossil fuels and climate change. However, there's less unanimity on what the implications are for long term investment.

Our Approach to Protecting the Value of Your Investments

Our starting point is that climate change, and the associated transition to a low carbon economy, will affect the ability of companies to continue to deliver the investment returns expected by our clients. This will most obviously relate to companies directly involved in high carbon activities, such as the provision of energy from fossil fuels, which will face increased regulation and legislation, and sectors such as insurance, with exposure to the damage caused by more frequent extreme weather events. However, we believe it is essential to understand the relationship between all investments and climate change, reflecting the reality that this is the existential challenge of the day.

In practical terms, we believe that in deploying investors' capital it is important to take account of the implications of climate change on sustainable investment returns.

There are some companies that we anticipate face such a significant risk that, from a responsible perspective, we must consider them to be un-investable. This includes businesses in the most carbon intensive sectors where we see no current or realistic future alignment with global agreements on climate change such as the Paris Agreement[1], and in valuing companies generally, we seek to take account of the measures that they are taking, or may be required to take in the future, to operate.

We also recognise that, through engagement and voting, investors can drive an agenda for change. This can involve supporting individual businesses to reposition themselves ahead of anticipated changes in regulation and legislation and, in so doing, assist with the transition to a low carbon economy.

Given the gravity of climate change as a risk to both the planet and the value of investments, engagement on climate risk is our highest stewardship priority.

What Should Charities Do About 'Fossil Fuels'?

As a reflection of the current level of uncompensated risk associated with climate change our portfolios are significantly underweight 'carbon'. However, when it comes to the specific challenge of investment in the fossil fuel industry, there are choices to be made.

Our standard approach is based on the premise that transition to a low-carbon sustainable and responsible economic system can involve continued investment in those fossil fuel companies that recognise the need, and have taken the first steps, to adapt. Where justified by the prospect of forward risk-adjusted returns, we continue to consider exposure to these company's subject to there being a programme of productive engagement and voting. We believe that engagement can deliver improved environmental and economic returns.

[1] The Paris Agreement is an agreement, within the United Nations Framework Convention on Climate Change, that seeks to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels

This approach is adopted by our **COIF Charities Investment Fund** and the **CBF Church of England Funds**[2].

We are, however, aware that increasing numbers of charities view the extraction of fossil fuels as an inherently unethical activity. For this reason, it has been decided to alter the investment policy followed by the **COIF Charities Ethical Investment Fund** which will become 'fossil free' no later than 1st December 2019. After this date, this Fund will not invest in any company that generates more than 10% of their revenue from the extraction of thermal coal or oil and gas[3].

The Ethical Fund will also continue to restrict investment in companies in other sectors with high carbon footprints, such as electrical utilities, where we anticipate that they do not comply with the Paris Agreement.

As with all CCLA Funds, the Ethical Fund will benefit from our engagement programme on climate change and invest in 'low carbon' opportunities.

We also recognise that some, large, charities have specific requirements. For this reason, we will continue to help clients with **segregated investment portfolios** develop and implement bespoke approaches to this key issue.

Summary

Whilst our clients are able to choose different approaches to investment in fossil fuel companies to reflect their values, we are committed to ensuring that we are protecting the value of your investments through the transition to a low carbon future.

If you have any concerns, or would like further information, about our approach please contact your relationship manager or CCLA's client services team (client.services@ccla.co.uk)

[2] The CBF Church of England Funds follow the climate change advice produced by the Church's Ethical Investment Advisory Group
[3] This is based upon revenue derived from fossil fuel extraction and refining and is based upon data provided by our third-party ethical screening partner, MSCI