CCLA’s Statement in Response to the UK Stewardship Code

‘‘The Stewardship Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. Engagement includes pursuing purposeful dialogue on strategy, performance and the management of risk, as well as on issues that are the immediate subject of votes at general meetings’’ Financial Reporting Council, July 2010

Principle One: Policy Disclosure

“‘Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities’.

- CCLA is a long-term responsible investor seeking sustainable returns for clients
- Responsible investment and stewardship is embedded within our investment approach
- Our approach extends to overseas equities and other relevant asset classes

The delivery of sustainable long-term investment returns is a central requirement of our clients and all of our Equity and Multi-Asset Funds have long term performance targets. Because of this, responsible investment and stewardship is embedded within our approach to managing our clients’ assets. We assess companies’ environmental, social and governance (ESG) risks in conjunction with their financial position. High ESG risks count against our assessment of companies, and in some cases will be a critical factor in deciding not to invest.

Our approach to stewardship ranges from active monitoring of all holdings, through the use of active proxy voting and external ratings, to focussing on key issues. The majority of our stewardship activity is conducted in-house by our portfolio managers and/or our specialist ethical and responsible investment team. External stewardship providers are used from time to time to provide extra capacity on key CCLA projects. All stewardship is overseen by our quarterly Ethical and Responsible Investment Committee, attended by the Head of Ethical and Responsible Investment, the Chief Investment Officer and the Chief Executive.

Stewardship is an integrated part of our approach to allocating our clients’ capital. Where this is conducted by our specialist ethical and responsible investment team activity is routinely communicated to our portfolio managers. In extremis, poor responses to engagement can lead to divestment.

Concerns regarding company performance are addressed by weekly portfolio management meetings.

CCLA’s approach to Active Ownership was awarded an A+ Rating in the most recent Principles of Responsible Investment Assessment Exercise (please see https://www.ccla.co.uk/our-approach/how-we-approach-stewardship-and-ethics for our full PRI Report).

Principle Two: Conflicts of Interest

''Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed'.

- Our stewardship work is delivered in the interests of all of our clients
- We work according to robust policies and oversight
- All of our activity is conducted in accordance with CCLA's conflicts of interest policy

Our stewardship work is delivered in the interest of all of our clients. We actively seek to ensure that it does not unduly prioritise the needs of any single client group and is not influenced by the interests of any CCLA employee, shareholder or any other stakeholder. However, despite our best efforts, we do recognise that conflicts of interest can arise in our day-to-day activity. These include, but are not limited to:

- Voting upon the appointment of a company director with whom CCLA has an existing commercial or other significant relationship
- CCLA portfolios holding the shares of the different companies involved in proposed M&A activity
- Our clients having different views and priorities for engagement

In order to ensure that possible conflicts of interest do not negatively impact upon our clients CCLA has established robust policies and oversight for all Stewardship Activity.

Proxy voting is conducted by the Ethical and Responsible Investment Team in line with an agreed Proxy Voting Policy. Any deviation from the policy requires the approval of a second member of staff and is subject to annual review by CCLA's internal audit team. This ensures that the decision is appropriate for the best interests of the specific portfolio.

The majority of our engagement resource is allocated to where our investment analysis, ongoing monitoring process, or wider research suggests that it is required. However, to further the charitable mission of the underlying unitholders we conduct additional engagement activity for a number of our charity investment funds. We allocate specific resources for this purpose and it is funded through the relevant funds' management fee. The focus for this engagement is established through client surveys or relevant external bodies. This enables us to focus our resource on the most common concerns, rather than those held by only a small number of organisations. Our engagement prioritisation process is overseen by the quarterly Ethical and Responsible Investment Committee. A full list of our current engagement priorities is available to our clients upon request.

All of our activities are also subject to CCLA's wider conflict of interest policy which is available on our website at the following address: https://www.ccla.co.uk/our-policies/conflicts-interest-policy.

Principle Three: Monitoring Companies

''Institutional investors should monitor their investee companies'

- CCLA systematically monitors all companies that are held within our clients' portfolios
- Our approach to monitoring includes active proxy voting and the use of third party data
- Where we identify concerns we prioritise engagement

Monitoring all of our investee companies is a routine part of CCLA's investment approach. We do this through ongoing performance reviews, active proxy voting and considering data provided by third party providers.

Our specialist ethical and responsible team continually monitor investee companies' approach to managing ESG risk. This is conducted through active proxy voting and by routinely analysing data and ratings that are provided to us by third parties. Where our process identifies corporate governance structures that fall below established standards (such as the UK Corporate Governance Code, or equivalents in non-UK markets), poor policies and procedures for managing other ESG risks, or falling standards we prioritise engagement. Recognising their importance within our portfolios we also prioritise ongoing engagement with companies that make up more than one percent of our invested assets.

The Head of Ethical and Responsible Investment is responsible for the implementation of our process for monitoring investee companies and resultant engagement prioritisation. This is reviewed bi-annually by the Ethical and Responsible Investment Committee to ensure that it is effectively identifying the relevant ESG risks.

Concerns regarding company performance are addressed, and the appropriate response identified, in our weekly portfolio management meetings.

We do not actively seek to become an 'insider' at the companies in whom we invest our clients' assets. However, we are aware that detailed engagement can lead to receiving information that is not yet freely available to the market. We have clear policies and practices in place for managing such instances.

Principle Four: Escalation Policy

''Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value'

- We are prepared to escalate our engagement when it is in our clients' interests to do so
- When appropriate we are prepared to express our concerns publicly
- We will divest from companies when it is appropriate for meeting our clients' objectives

We seek to be an active owner of the companies in whom we invest our clients' assets and engage with all companies in our portfolio at least once a year. We prioritise detailed engagement at companies based upon any concerns that we have about strategy, performance or the management of any specific environmental, social or governance risks that are posed by their business activity. These priorities are routinely reported to the weekly portfolio management meeting and/or the quarterly ethical and responsible investment committee. Our full engagement prioritization document is available to our clients upon request.

We are prepared to escalate our engagement when we consider that progress is not being made. In the first instance we will seek additional meetings with company management, before considering speaking publicly or seeking to file a shareholder resolution. In extremis, when in the interests of our clients, poor responses to engagement can, and have, resulted in divestment. Examples are available on request.

Principle Five: Collective Action

''Institutional investors should be willing to act collectively with other investors where appropriate'

- CCLA is prepared to act collectively to protect long-term shareholder value
- We seek to build the most effective engagement coalition to achieve our intended goal
- We are members and participate in a number of industry bodies

We are prepared to act collectively with other investors when this is a cost effective way of protecting long-term shareholder value. When acting collectively we seek to build the most effective engagement coalition. Our current collaborators include the members of the £16bn Church Investors Group (in regards to client concerns such as the quantum of executive remuneration) and the £230bn 'Aiming for A' investor coalition (with whom we are engaging the largest UK utilities and extractives companies on their approach to climate change).

We welcome approaches to join other collaborative initiatives; potential collaborators should contact Andrew Adams, Analyst: Ethical & Responsible Investment, (a.adams@ccla.co.uk) in the first instance.

In order to pursue our clients' best interests we are members of a number of investor groups that co-ordinate or conduct engagement. These include the United Nations backed-Principles of Responsible Investment, the Institutional Investors Group on Climate Change and the International Corporate Governance Network.

Principle Six: Voting Policy and Disclosure

''Institutional investors should have a clear policy on voting and disclosure of voting activity'

- CCLA votes both domestic and overseas holdings and advises companies of the reasons for any votes against management ahead of the meeting
- Our voting policy is reviewed annually in collaboration with like-minded investors
- Our quarterly voting record is available on our website and in our client reports

We have developed bespoke voting templates with like-minded investors, and aim to vote all our domestic and overseas holdings where it is practical to do so. The templates promote best-practice corporate governance (as identified by the UK Corporate Governance Code, or equivalents in non-UK markets) on issues such as board structure, client concerns about excessive remuneration and our wider engagement priorities. Our service provider is ISS, who we work with in collaboration with other like-minded investors. Voting decisions that are not covered by the templates are taken by portfolio managers. We write to companies ahead of the meeting to inform them of any plans to vote against management and to allow for further engagement.

We do not participate in stock lending.

Our voting policy and quarterly voting record are disclosed on our website at https://www.ccla.co.uk/our-approach/how-we-approach-stewardship-and-ethics.

Principle Seven: Periodic Reporting

''Institutional investors should report periodically on their stewardship and voting activities'

- We disclose our full voting record and stewardship highlights every quarter
- Our stewardship activities are included in our internal audit programme
- We will shortly be publishing an annual stewardship report

Stewardship is an integrated part of our investment process and company engagement, voting and wider stewardship highlights are featured in our standard quarterly client reports and meetings. These are also available on our website at https://www.ccla.co.uk/existing-clients.

We will shortly be publishing an annual stewardship report which will feature more granular data on our activities. In the interim details of our full stewardship activity are available to our clients upon request.

We are investigating the options for conducting an annual external audit of our proxy voting activity to ensure that this complies with the requirements of AAF 01/06. Currently, all of our stewardship work is verified by our internal audit function as part of the annual internal controls review, with summary reports made available to clients and non-clients alike, upon request. Full records, including action points, are kept of all of our stewardship work.

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