

**CCLA**  
GOOD INVESTMENT

# Get Real

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Sustainable Investment  
Outcomes 2021

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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.

[www.koestlerarts.org.uk](http://www.koestlerarts.org.uk)

Cover image courtesy of Koestler Arts.  
*Wonder*, HM Prison Magilligan, Painting.

See inside back cover for details of other Koestler Arts images within this report.

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# Introduction

**S**ince our last responsible investment report the world has experienced unprecedented change. Covid-19 has impacted upon our lives, our communities and our economies. It has also made it clear that investment markets can only ever be as healthy as the planet and communities that support them.

As we continue the long recovery from the pandemic, we cannot forget this message. From climate change to growing levels of poor mental health, our economy is far from sustainable. If this imbalance continues, social and environmental factors will once again come back to bite the value of investment assets as well as negatively impacting our living standards.

However, despite the ever-growing attention on environmental, social and governance (ESG) factors, we do not feel that the investment management industry has truly understood that the only way to manage these risks is to go beyond the make-up of our portfolios and make a lasting real-world impact.

It is beyond time to do this, and CCLA is committed to being a catalyst for this change.

It's time to 'get real' about ESG.

**Peter Hugh Smith**  
Chief Executive



“Terri and Kip make up our crazy dreamer imagineering department. Al is our get-realinator.”





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# What is ‘Good Investment’?

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

## Act

We act as an agent for ‘change’ because investment markets can only ever be as healthy as the environment and communities that support them.

We do this by:

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

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

## Assess

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

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

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

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

## Align

We invest in a way that is aligned with our clients, as we are the guardians, not the owners, of the assets that we manage.

For this reason, we have a responsibility to:

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

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

This is what we call ‘Good Investment’. ■







# Industry recognition

**W**hile responsible investment has never been more important for underlying investors, it is even harder to assess the effectiveness of asset managers' policies and processes.

We recognise the importance of credible industry standards such as the Principles for Responsible Investment's annual assessment process and the Financial Reporting Council's Stewardship Code.

As a signatory to both, our approach is assessed annually and the full results are available on our website.

## Principles for Responsible Investment

The Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment, supported by the United Nations. The PRI evaluates signatories on how well they incorporate ESG factors into investment decisions.

## The Stewardship Code

CCLA has been accepted as a signatory to the Financial Reporting Council's UK Stewardship Code 2020. The code sets out 12 principles which aim to set high stewardship standards for those investing money on behalf of UK savers. ■

### TOP MARKS FOR CCLA

**A+**

The PRI awarded us A+ across all categories.

#### Strategy and governance

- ESG policies, objectives and strategies
- How the firm promotes ESG efforts both internally and externally
- Consideration of ESG issues in asset allocation

E	D	C	B	A	<b>A+</b>	CCLA
E	D	C	B	A	<b>A</b>	Median

#### Incorporation

- ESG screening applies to internally managed listed equity holdings
- Integration of ESG issues into investment decision making for your internally managed listed equity holdings

E	D	C	B	A	<b>A+</b>	CCLA
E	D	C	B	A	<b>B</b>	Median

#### Active ownership

- Quantity and comprehensiveness of external engagements
- How an organisation carries out engagements through internal staff

E	D	C	B	A	<b>A+</b>	CCLA
E	D	C	B	A	<b>B</b>	Median

#### Property

- Responsible investment implementation during fundraising, pre- and post- investment.
- Selection, appointment and monitoring of third-party property managers

E	D	C	B	A	<b>A+</b>	CCLA
E	D	C	B	A	<b>B</b>	Median

Source: PRI Assessment Report 2020.





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# Why it is time for investors to ‘get real’

**A**s we recover from the Covid-19 pandemic it is clearer than ever before that investment markets can only ever be as healthy as the communities and environment that support them. While ‘sustainability’ has never had a higher public profile, and all investment managers now talk about their work to incorporate environmental, social and governance (ESG) factors into their process, we remain concerned that the world is not acting fast enough to meet the challenges we collectively face.

On climate change, despite significant progress, current international policies are expected to only limit temperature rises to 2.7–3.1 degrees Celsius above pre-industrial levels. This is far above the desire to limit temperature rises to 1.5 degrees as set out in the 2015 Paris Climate Change Agreement and, if unmitigated, will continue to lead to increased poverty in many low-income countries, erratic weather patterns and accelerated biodiversity loss.

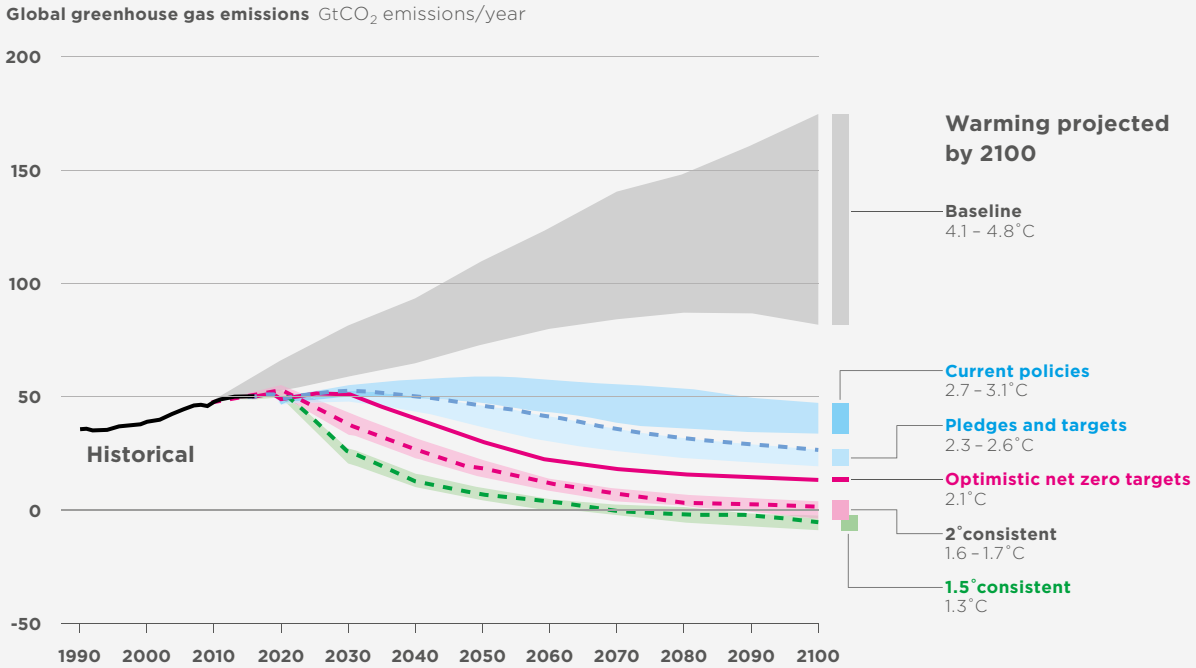
Similarly, despite increased attention from companies and policymakers globally, 40 million people are estimated to live in a state of modern slavery.<sup>1</sup> Income inequality across countries in the Organisation for Economic Co-operation and Development (OECD) is at its highest level for 50 years and poor mental health is now the largest single cause of disability in the United Kingdom.<sup>2</sup>

In addition to impacting our livelihoods, we are conscious that a failure to act on these important issues will lead to market instability and poor outcomes for investors over the long-term. Climate action, loss of biodiversity, natural resource crises and mental health deterioration are all listed by the World Economic Forum as key global risks.

1 The Liechtenstein Initiative (2019), ‘A Blueprint for Mobilizing Finance Against Slavery and Trafficking: Final Report of the Liechtenstein Initiative’s Financial Sector Commission on Modern Slavery and Human Trafficking.’ Online at [www.fastinitiative.org/the-blueprint](http://www.fastinitiative.org/the-blueprint)

2 ISO (2019), ‘Mental health and the management standards.’ Online at [www.isoqsltd.com/mental-health-and-the-management-standards](http://www.isoqsltd.com/mental-health-and-the-management-standards)

## PROJECTED LEVELS OF GLOBAL TEMPERATURE RISES



Source: Climate Action Tracker (2020), 'Addressing global warming'. Online at <https://climateactiontracker.org/global/temperatures>

There has been an incredible rise in the popularity and profile of ESG investing. We are, however, not convinced that the asset management industry has truly grasped the consequences of inaction. A failure to act on systemic risks will threaten both the functioning of markets and long-term performance.

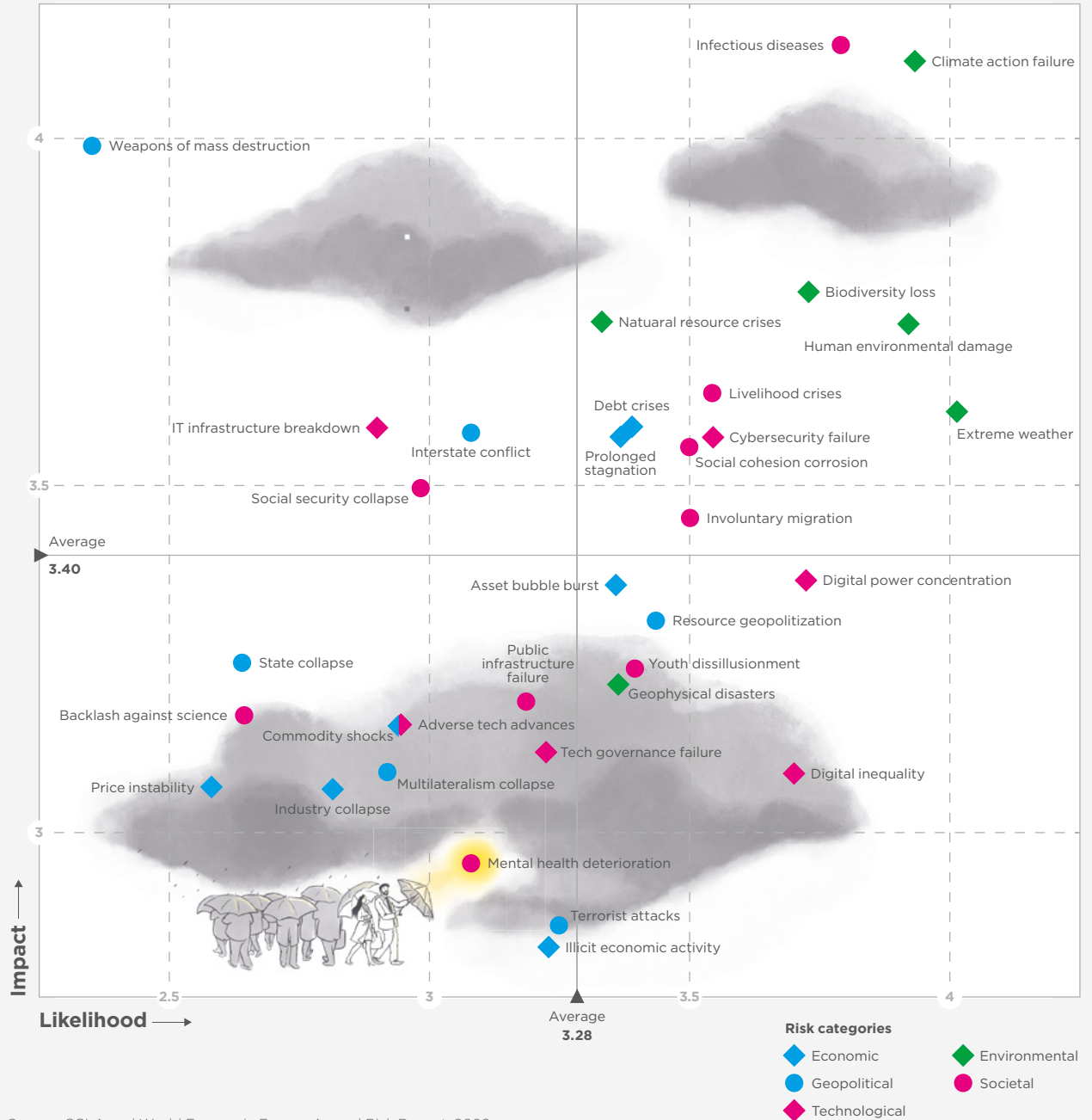
Instead of driving the change that we need to see in the world, most asset managers have focused on picking companies based on their ESG rating. While this feels right, it is unlikely to work in addressing the challenges that we face, nor protect portfolios over the long term. It is, therefore, time to 'get real' about the impact, or lack thereof, that investors are having, and

to begin to judge sustainable investment efforts on how they affect the real world, not just artificial metrics.

To this end, we achieve most of our impact by going beyond the composition of our portfolios and being an advocate and catalyst for change.

While it is important to avoid the companies that cause the most damage to our planet and communities, or those that would pose reputational damage to our clients, we believe that working with businesses through meaningful and persistent dialogue is more likely to drive change than building listed equity portfolios that only invest in ESG leaders.

**SPOTLIGHT ON MENTAL HEALTH AS A GLOBAL CHALLENGE FOR THE FIRST TIME**



Source: CCLA and World Economic Forum, Annual Risk Report, 2020.



With hard work and persistence we can have a significant, real-world impact.

By buying a company that is already a leader in sustainability, investors are not providing capital for new projects, they are solely providing liquidity for a previous investor who wishes to exit. Therefore, while thematic sustainability portfolios feel good, and may financially benefit from long-term trends, they are unlikely to have a significant positive impact.

Instead, by working with companies as an active steward, we can change their behaviour, reduce their negative footprint and are more likely to achieve demonstrable, real-world change.

Changing corporate behaviour on the scale that is necessary is hard work, a specialist skill and requires us to be ambitious in our asks of companies. To achieve this, we prioritise our engagement targets in two ways:

- 1 We recognise the importance of the health of the market as a whole and seek to play our part in improving standards across the board. To do

this we prioritise a small number of systemic sustainability risks, such as poor practices to safeguard employees' mental health, that have not been addressed by other investors. We build new collective engagement initiatives - that bring our counterparts with us - in a push for action.

- 2 We seek to engage with every company that we invest in at least once per year and develop detailed sustainability action plans for most of our holdings where we have identified an area of interest in their approach to sustainability. Due to the importance of driving change, where this engagement does not work on the most important sustainability factors, we sell the holding.

This approach is not easy, but on issues as diverse as the Living Wage to climate change and mental health to modern slavery, we have learned that with hard work and persistence we can have a significant, real-world impact. ■

## SUSTAINABLE DEVELOPMENT GOALS

We fully support the pursuit of the 17 Sustainable Development Goals (SDGs) that were adopted by the United Nations in 2015, which make up a core component of the UN 2030 Agenda for Sustainable Development.

The SDGs recognise that ending poverty and increasing economic growth must go hand in hand with strategies that reduce inequality, improve health and education whilst tackling climate change and working to preserve biodiversity. Contributing to the success of the SDGs must come from various stakeholders including governments, the private sector and civil society.

Instead of solely investing in 'SDG aligned' businesses, we believe that the best way to deliver the necessary change is by using our power as owners of the companies in which we invest. This allows us to have a real-world positive impact on the issues that matter. From addressing modern slavery to tackling mental ill-health, we are having a real impact on the key issues of our time.



## WHY ADDRESSING SYSTEMIC RISKS IS AT THE CENTRE OF OUR PHILOSOPHY

Within the growth of ESG, and the consideration of how sustainable individual companies are, it is possible to miss the importance of ‘systemic’ risks. These are factors, such as climate change and public health, that can affect the performance of the economy as a whole. Despite their wide-ranging effects the investment industry has a poor record of addressing ‘systemic issues’ because, when they hit, they impact everyone and work to address them does not increase comparative portfolio performance. There is, therefore, no commercial incentive for any one manager to take the lead. We consider this to be a significant market failure and a major risk to our planet, communities and the functioning of markets.

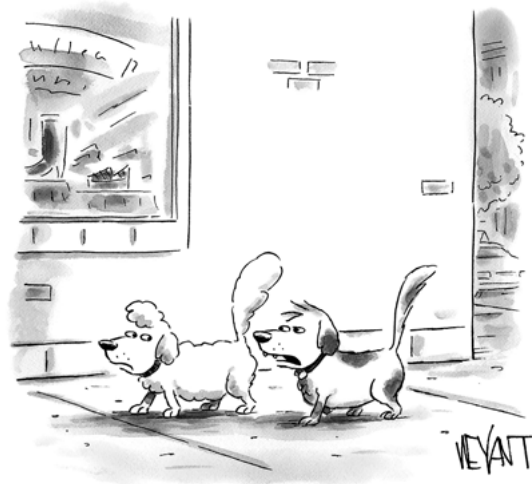
To address this CCLA has a long track record of developing engagement initiatives that focus investor action on risks that have not been adequately addressed by the market. We identify these issues through an informal process that includes reviewing materials such as the UN Sustainable Development Goals, the World Economic Forum’s annual Risks Report and our clients’ responsible investment priorities as we believe that these can act as early indicators to future issues of interest.

In addition, when identifying issues to prioritise we want CCLA’s activity to be additive, rather than replicative, of existing efforts. Before prioritising an issue, we review the extent to which it is already being addressed by other investors.

This has led us to prioritise issues such as poor mental health, modern-day slavery and being an early investor to tackle the challenge of climate change. We have set clear targets for the impact of each of these programmes.

Working to address systemic factors requires us to go beyond the boundaries of traditional investor engagement. For example, in addition to working with companies, our modern slavery programme has placed significant focus on working with government to increase the effectiveness of legislation and regulation. By changing the rules, we are able to improve the standards of many more companies than would have been possible through direct engagement.

While to some this might seem to be beyond the role of an asset manager, we are confident that this approach will not only have a positive impact on peoples’ lives but will help to alleviate risks before they negatively impact on the valuation of our clients’ assets.



“I bark and I bark but I never feel like I effect real change.”





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# Our approach to integrating ESG factors

**T**he focus of our responsible investment process is preserving the long-term value of our clients' investments by delivering positive change. However, to protect short- and medium-term value, we fully integrate ESG factors into our investment process for listed equity and fixed interest. We believe that this allows us to better assess and control financial risks, that are not often visible through the lens of conventional financial analysis.

We believe that poor ESG standards at companies is of increasing importance as regulation, legislation and changing consumer preferences will increasingly embrace the importance of sustainability. This means that businesses involved in the most unsustainable activities are likely, over time, to be punished. So, we assess each company prior to purchase.

This assessment, and some of our subsequent active ownership work, is based on four themes:

- climate change, biodiversity and the environment
- good work and human rights
- good health
- corporate governance.

In each theme we use data and due-diligence meetings with company management prior to making an investment. We review companies' policies for managing ESG risks, how they are performing in managing those risks and assess whether companies have been involved in any ESG-related controversies.

Taken together this analysis allows us to identify, and remove from our investment universe, the most unsustainable businesses and develop appropriate engagement action plans to help others move forward.

Our ESG analysis does not end once an investment has been made. Companies' ESG characteristics are routinely monitored to ensure that standards do not slip, and where engagement has been prioritised, progress is closely reviewed. Due to the importance that we place on change, we reconsider continued investment in companies if they are hesitant to engage or are not adequately responding to engagement on the most serious issues.

This approach helps us to control risk, deliver more sustainable investment returns and contributes towards our ethos of pushing for positive change. ■





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# Climate change

## Pushing for action, protecting your portfolio

**W**e view climate change as the largest threat to our planet, ecosystems and communities. If unmitigated, it will lead to increased erratic weather patterns, higher sea levels, biodiversity collapse, and unprecedented mass migration. Because of this, we see it as a material threat to medium- and long-term shareholder value. This is a critical issue for investors and for this reason we have long supported the effort to limit global temperatures to below 1.5 degrees.

Given the systemic threat that climate change poses to our society, climate risk is a material consideration for all our investments. We are committed to accelerating the transition to a net-zero emissions economy and taking steps to protect the value of our clients' portfolios during the transition.

This is reflected in our climate pledge, which commits us to:

- act to increase the pace of climate action by leading impactful engagements with the companies that we invest in and pushing policymakers for progressive regulation and legislation

- assess companies' position against the energy transition as part of our investment process and avoiding those that do the most harm
- align our portfolios with our clients' requirements and disclosing information about our approach to managing the risks and opportunities associated with climate change.

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

We are also aware that climate change is not just an environmental issue. The transition to a net-zero economy will cause unprecedented economic transformation, and affect many people and communities whose livelihoods currently depend on the continuation of high-carbon, capital-heavy industries. Therefore, we support the Just Transition, a movement that aims to ensure the continued prosperity, identity and dignity of people as we shift to a less carbon-heavy system.





“Where have you been? You’re well oiled.”

## Pushing for climate action

We believe that climate change is a non-diversifiable, systemic risk to the functioning of markets. This means that, while it is possible to increase the resilience of your investment portfolio by taking steps to avoid the most climate-intensive companies, nearly all investment assets will be impacted negatively if action is not accelerated. We believe that investors have a fiduciary duty to accelerate action as it is the only way to control the risk to long-term performance.

As a ‘mission-led’ asset manager, we believe that CCLA has a key role to play in being a catalyst for investor action on climate change. We do this through the following principles:

**1 Net zero through action, not transactions.** CCLA is a founder signatory to the Net Zero Asset Managers initiative. This commits us to achieving net-zero greenhouse emissions in our portfolios no later than 2050. While carbon footprints are an important tool in managing the ‘climate exposure’ of portfolios, we believe that it is better to achieve ‘net zero’ by working to achieve real emissions reductions rather than solely buying low carbon assets and selling carbon intensive ones to other investors. This approach seeks to assist with reducing global emissions, and accelerating the fight against climate change, rather than just making our own portfolio metrics look good.

**2 Pushing for better regulation and legislation.** We believe that progressive legislation will be essential if we are to accelerate the transition to a low-carbon economy. We are members of the Institutional Investors Group on Climate Change and seek to support other initiatives that advocate for appropriate climate related public policy including the UK and Canadian governments’ Powering Past Coal Alliance.

**3 Corporate engagement.** We believe that we can have a significant impact on accelerating companies’ climate programmes by engaging with them. We have an active climate stewardship programme. Our focus is on the most carbon intensive businesses, such as those within the electrical utility sector. We have also been extending our programme to businesses, such as banks and insurers, who can have a significant impact on the continuation of a fossil fuel-based energy system.

**4 Allocating capital to ‘impact’ assets.** The OECD estimates that approximately \$6.9 trillion is needed in investment every year through to 2030 to meet climate and development objectives. However, we believe that purchasing assets that already exist on the secondary market has little positive real-world impact. We therefore prefer and advocate to identify assets on the primary market because it is here that capital is specifically and most efficiently directed to enabling ‘new change’ to happen. ■

## THE CLEAN GROWTH FUND



We are proud to have partnered with the UK government in seeding the Clean Growth Fund (CGF). Launched in May 2020, the fund is designed to facilitate the rapid scale-up of the most promising technologies aimed at reducing carbon emissions.

The CGF has been created to help develop new climate-

friendly start-up activity in the energy, buildings, transport, and waste sectors, creating skilled jobs along the way and helping the UK to reach net-zero emissions by 2050. CCLA and the UK government each provided half of the fund's £40 million founding capital.

Clean growth companies often face difficulties in funding the research and development of early-stage projects. By partnering public funds with

private capital, the CGF hopes to highlight the available opportunities in the green technology space and attract further investment. The fund has subsequently attracted capital from a number of other investors, allowing it to further its work.

The fund is a good example of how we seek to invest in companies that will contribute to real-world carbon reduction. Positive progress, with sustainable long-term returns.

## GETTING A 'SAY ON CLIMATE' AT UNILEVER



Unilever

In 2020, we took over as 'lead investor' at consumer goods giant Unilever on behalf of the Climate Action 100+ investor coalition. Our investor group was behind Unilever's welcome decision to agree to a 'Say on Climate' vote at its next Annual General Meeting (AGM), becoming the world's largest company to do so.

'Say on Climate' is a relatively new initiative, similar in ways to the 'Say on Pay' vote, whereby a firm's shareholders have the right

to vote on the remuneration of executives. When a company introduces a 'Say on Climate' vote, shareholders vote on the quality and scope of the company's climate transition plan and climate disclosures.

For companies, a 'Say on Climate' vote allows them to showcase leadership and verify shareholder support for their plans.

Unilever has decided to include a 'Say on Climate' vote at AGMs on an advisory basis, every three years. This is a meaningful step, and we expect Unilever's announcement to spur other major consumer goods companies to follow suit.

We are now working with Unilever to help them deliver:

- an enhanced, detailed scenario analysis to identify business risks from climate change events
- a renewed net-zero commitment, with credible interim targets to 2039
- active participation in Climate Action 100+ sector transition workstreams, to allow Unilever's peers to learn from its example
- a new Net Zero CA 100+ Companies Benchmark, which will be a public benchmark due for release in 2021.

# A history of climate action

**F**itting with the partnership approach that is at the centre of the UN Sustainable Development Goals, our experience shows us that collaboration is critical to mobilising action on climate change.

We recognise that we cannot do this on our own and we have a long track record of channelling our position as an investment manager into leading meaningful action across the investment community.

A key part of this work was the creation and curation of the 'Aiming for A' shareholder initiative in 2012.



2012

Launches Aiming for A shareholder advocacy campaign, which goes on to inspire Climate Action 100+



2007

Early signatory to UN Principles for Responsible Investment

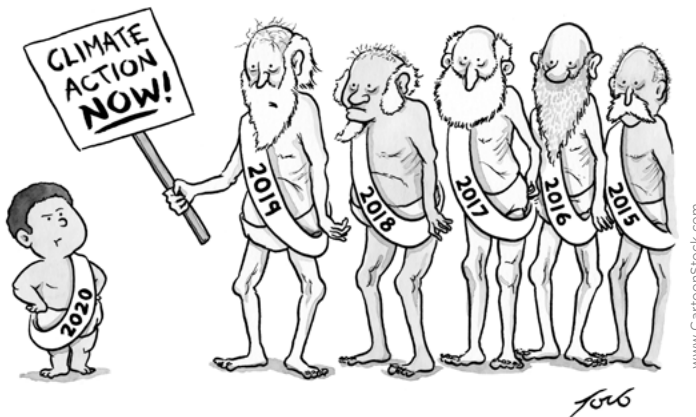
2010

Start climate action pathway with carbon disclosure watch list

2013

The COIF Charities Ethical Fund restricts investment in thermal coal

CCLA becomes Cornerstone investors in the Bluefield Solar Income Fund



“It’s your turn, kid.”



If unmitigated, climate change will lead to increased erratic weather patterns, higher sea levels, biodiversity loss and unprecedented mass migration.



## 2015

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



## 2017

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



## 2020

Seed investors of the Clean Growth Fund with the UK government

CCLA sells remaining direct holdings in oil and gas extraction companies



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

## 2016

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



**GLENCORE**

**RioTinto**

## 2019

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

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



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



## 2021

CCLA pledges to achieve net zero by 2050

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

Following dialogue Unilever is the first FTSE100 company to introduce a 'Say on Climate' vote.



Founding signatory of IIGCC Net Zero Asset Managers initiative



NextEra Energy responds to engagement by increasing climate disclosures





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# Climate stewardship

## A summary of our engagement

**W**e prioritise all carbon-intensive businesses for engagement on climate risk. Our progress over the reporting period is shown below. The engagement key shows the level of progress made with companies.

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### Key

- We are pleased with progress against our current engagement aims
  - Made some progress
  - No or limited response to engagement
  - \* No longer held in any of CCLA's portfolios
- 

### Electrical utilities

#### Duke Energy ●

Duke Energy is one of CCLA's most carbon-intensive holdings and is only held in a small number of accounts. The US-listed utility retains a significant coal-fired power generation portfolio. However, our engagement continues to be productive. While there is significant progress to make for the company to achieve its net-zero pledge, it has continued to implement its climate change efforts.

#### NextEra Energy ●

Based in the US, NextEra is one of the world's largest generators of renewable energy. Despite their climate leadership in the generation of clean energy, the company has continued to lag peers in their disclosure covering climate-related issues. In 2020 CCLA filed a shareholder resolution calling for progress, this was recalled once we had received a commitment that the company would report to CDP<sup>3</sup>, and align with the recommendations of the G20's Task Force on Climate-Related Financial Disclosure (TCFD). We see this as a critical first step in building transparency and assessing progress.

#### Rio Tinto ●

From the time of the UN Climate Action Summit in the autumn of 2019, we discussed the possibility of Rio Tinto putting its own evolving TCFD-aligned reporting to investor votes at its AGMs in the UK and Australia. This has now been agreed for its 2022 AGMs, and discussions are underway about developing a tailored net zero standard for the diversified mining sector that will supplement initial benchmarking by the Transition Pathway Initiative and CA100+. In Europe, the CA100+ engagement with Rio Tinto is undertaken by two of the company's largest shareholders.

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<sup>3</sup> Initially called Carbon Disclosure Project, CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.



Working with companies through meaningful and persistent dialogue is more likely to drive change than building portfolios that only invest in ESG leaders.

## Consumer companies

### The Coca-Cola Company ●

Engagement focused on the company's approach to lobbying on climate-related issues. Satisfactory assurances of their approach in this area were received.

### Colgate Palmolive\* ●

Climate Action 100+ has been engaging with Colgate Palmolive with a particular focus on their approach to lobbying. This is reflected on the Climate Action 100+ dashboard. CCLA has supported this engagement and a positive response was received from company management.

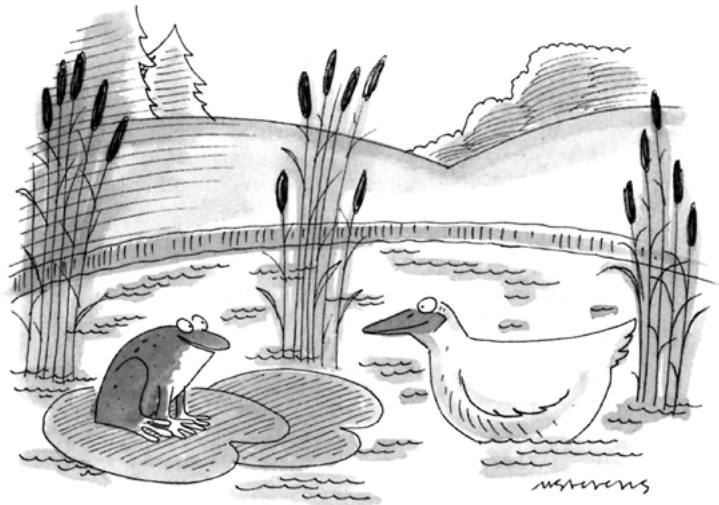
### Nestlé ●

We supported Ethos Fund on their positive engagement with Nestlé that encouraged the company to include a 'Say on Climate' vote at their most recent AGM.

## Financial companies

### JP Morgan ●

We joined a call held with senior representatives from JP Morgan as part of a collaborative engagement orchestrated by ShareAction. This asked the company to publish climate-related targets, integrate the Independent Energy Agency's (IEA) net zero or another 1.5 degree scenario into its climate strategy, publish a new coal strategy, and develop a strategy to address the systemic risk posed by biodiversity loss.



“My lawyer finally got me on the endangered-species list!”

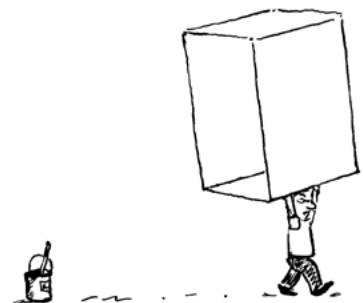
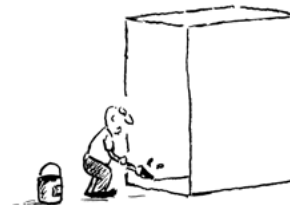
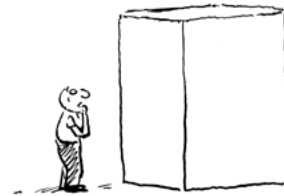
## SUPPORTING THE JUST TRANSITION

Addressing climate change is often regarded as an environmental issue. However, the transition to a net-zero emission economy will have profound impact upon our society. One area that is likely to be heavily impacted is jobs in the traditional energy and other heavy industry sectors. As the energy transition continues, Leeds University estimates that 1 in 5 UK jobs will be impacted.<sup>4</sup>

For this reason, we consider climate change from a social, as well as environmental perspective and support the Financing a Just Transition Alliance. This is a group of financial services companies, coordinated 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 as a society we can't afford to desert the people who work within those industries.



<sup>4</sup> School of Earth and Environment (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>

We pledge to achieve net-zero greenhouse emissions in our portfolios no later than 2050.

**Building a climate-resilient portfolio**

While we believe that the best way to protect the value of our clients’ assets is to push to accelerate the transition to a net-zero emissions’ economy, we have taken several steps to make our portfolios more resilient over the short to medium term.

Due to the risks posed by regulation, legislation and changing consumer preferences, we have adopted a rigorous process for considering companies in the sectors most exposed to climate risk. As part of this approach we:

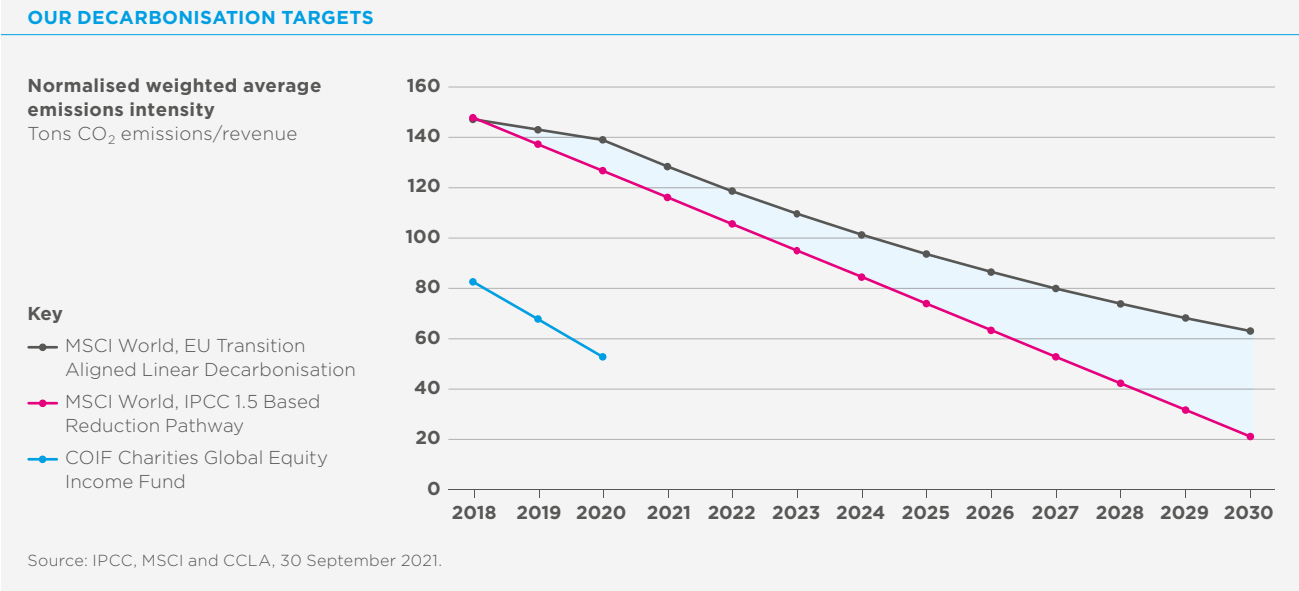
- avoid investment in the companies we believe contribute the most towards causing climate change
- assess the most exposed companies’ position against the Paris Climate Change Agreement
- dedicate capital to assets that will accelerate the transition to net zero.

Our equity portfolios are managed to meet low carbon footprints, measured relative to the benchmark. They are absent businesses which focus on extracting or refining coal, oil or gas, and have low energy consumption intensity.

**Our path to net-zero portfolios**

The transition to a net-zero economy will be a multi-decade process. To meet this milestone, it is important we set out our ambitions for change and to measure progress along the way.

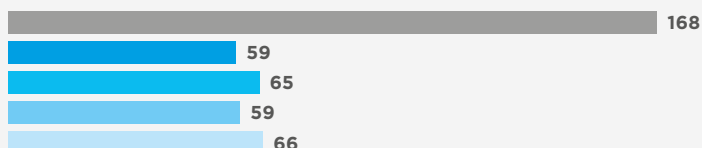
For this reason, CCLA is a founding signatory to the Net Zero Asset Managers initiative. This commits us to set decarbonisation goals that are consistent with an ambition to reach net-zero emissions by 2050 or sooner across all assets under management.



## CARBON MEASUREMENTS

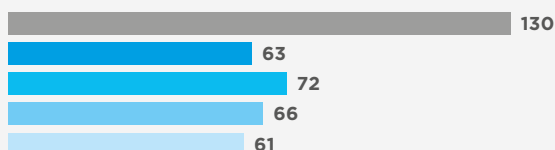
How efficient is my portfolio in terms of carbon emissions per unit of output?

**Carbon intensity** Tons CO<sub>2</sub> emissions/\$m sales



What is my portfolio's exposure to carbon intensive companies?

**Weighted average carbon intensity** Tons CO<sub>2</sub> emissions/\$m sales



What is my portfolio's normalised carbon footprint per million dollars invested?

**Carbon emissions** Tons CO<sub>2</sub> emissions/\$m invested



**Key**

■ MSCI World Index

■ COIF Charities Investment Fund (equities only)

■ COIF Charities Ethical Fund (equities only)

■ CBF Investment Fund (equities only)

■ Catholic Investment Fund (equities only)

Source: MSCI ESG Carbon Footprint Calculator, 30 September 2021. Scope 1 and 2 emissions.

As an active investment manager, we can purchase any asset within investment markets and have chosen to set our targets through a decreasing maximum carbon footprint based on the MSCI World Index. Informed by the IPCC Special Report on Global Warming 1.5°C and the UN Environment Programme, our ceiling decreases year on year. This is consistent with the aggregate decarbonisation rate required to limit temperature rises to 1.5 degrees above pre-industrial levels.

As a further step, we monitor our portfolio carbon footprints against the MSCI Climate Transition benchmark. This provides the context

of a specially constructed climate-sensitive comparator.

While CCLA's equity portfolios perform well on climate metrics, we are wary that portfolio decarbonisation can be an artificial metric and should not distract from the need to decrease real-world emissions. We are keen to meet our decarbonisation targets through our work to accelerate the transition to a low-carbon economy rather than significant changes to portfolio composition. We call this approach, 'action, not transactions' which is critical to managing the physical risks posed by climate change. ■







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# Good work and human rights

## Pushing companies to ‘Find, Fix and Prevent’ problems

**G**iven the difficulty to measure their short-term financial impact, social issues have traditionally been undervalued by responsible investors.

Research conducted by Sustainalytics for the Pension and Lifetime Savings Association has identified ‘human capital’ as being the single biggest source of ESG risk at the companies in which their members invest.

Now, ten years since the publication of the UN Guiding Principles on Business and Human Rights, it has never been more important for companies to understand the adverse impacts of their activities on people’s human rights. For these reasons, pushing for ‘good work’ is at the core of our responsible investment approach.

Our approach includes creating and coordinating the high profile ‘Find it, Fix it, Prevent it’ campaign, which is now supported by investors with assets over £7 trillion, and detailed engagement with companies on issues including labour standards, health and safety, human rights, and human capital management and analysis of all prospective investments prior to their purchase. This means that people are included at all stages in our investment process.

**The biggest ESG risk is failure to address systemic challenges. Working for better achieves much more than only investing in best.**

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## Pushing for action on modern slavery

Goal 8.7 of the UN Sustainable Development Goals calls for 'immediate and effective measures to eradicate forced labour and end modern and human trafficking'. To support this goal, CCLA developed the Find it, Fix it, Prevent it collaborative engagement initiative.

While the true extent of modern slavery is hidden from view, it is estimated that there are 40 million modern-day slaves in the world. This is a key issue for law-enforcement. However, it also impacts the business and investment community.

In the UK, for instance, the Global Slavery Initiative estimate that we import goods worth an estimated \$18 billion each year that, in all probability, used slave labour in their production. We believe that companies have an obligation to work to find, and then support the provision of remedy to, victims of modern slavery in their supply chain and direct operations.

To this end, the Find it, Fix it, Prevent it initiative has three work streams:

- 1 Public policy: to promote a meaningful regulatory environment through work with the government and the Home Office.
- 2 Corporate engagement: aiding companies in developing and implementing better processes for finding fixing and preventing modern slavery.
- 3 Developing better data: working with data providers, non-governmental organisations and academia to develop better data.

The initiative has made good progress, particularly in the areas of public policy and engagement.

In public policy, during the year the government provided their response to a consultation on proposed changes to the 'Transparency in the Supply Chain' section of the Modern Slavery Act. This committed the government to acting on all of the areas that we requested in our dialogue with them, including the creation of a central registry for modern slavery statements and mandating companies to respond to the Act in full.

In engagement, we were delighted that one of the 13 target hospitality companies, InterContinental Hotels Group, disclosed finding high-risk indicators of forced labour in their Oman operations for the first time. This is a significant development, and we attended the AGM to publicly congratulate the company on taking this leadership in their sector.

Building on this, our engagement with the company has moved on to pushing the company on their approach to finding remedy to the affected individuals and encouraging them to repeat the process that identified the problem in other markets.

## MODERN SLAVERY IN NUMBERS

£7 trillion

VALUE OF ASSETS MANAGED OR ADVISED  
SUPPORTING FIND IT, FIX IT, PREVENT IT

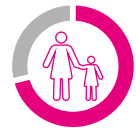
10,000 people

WOULD NEED TO BE FREED EVERY DAY  
TO END MODERN SLAVERY BY 2030

56 investors

SIGNED THE FIND IT, FIX IT,  
PREVENT IT INVESTOR STATEMENT

40 million people

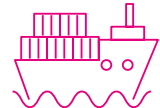


ARE VICTIMS OF MODERN SLAVERY;  
WOMEN AND GIRLS ACCOUNT FOR 71%

13 hospitality companies

HOSPITALITY COMPANIES  
ENGAGED DURING THE YEAR

\$18 billion



THE VALUE OF GOODS IMPORTED  
INTO THE UK EACH YEAR THAT ARE  
LIKELY TO HAVE USED SLAVE LABOUR  
IN THEIR PRODUCTION

1 company disclosed

INSTANCES OF MODERN  
SLAVERY IN ENGAGEMENT\*

\*For the purposes of this report we have defined an instance of modern slavery as being an identified breach of one or more of the International Labour Organization's 11 indicators of forced labour.



## MIGRANT WORKERS AND COVID-19

In 2020, CCLA-led a short collaborative engagement programme that was designed to raise awareness of the issues posed by Covid-19 to migrant workers in the Gulf States.

Migrant workers are a significant component of the world's labour force. According to the International Labour Organization (ILO) there are approximately 164 million migrant workers in the world. They are particularly prominent in the Gulf States where, in some countries, at least two-thirds of the labour force is made up of migrants, with most coming from Asian countries.

Migrant labour can have significant benefits for both host countries, where they provide much needed labour, and home countries, where the proceeds of their activities boost the local economy. However, migrants can also suffer from inadequate protections and can be victims of modern slavery.

Many low-skilled migrant labourers in the economic south are particularly vulnerable to recruitment fees and costs. Although banned by the UN's Dhaka Principles and some local laws and regulations, this is a common practice where labourers are charged fees as part of the process of obtaining a job. These costs can be significant. Research by Impactt, a specialist ethical trade consultancy, found the average recruitment

fee for a Nepalese worker to be \$874. This is the equivalent of two years' salary for a low-skilled worker. Often, the charges are covered by loans, which means workers can end up in a position of being trapped by the need to repay the borrowed money, or by selling possessions, which means they have no other form of livelihood.

This problem was exacerbated by Covid-19. As the economy shut down, many migrant workers found themselves without a job and were not eligible for host country benefits.

To address this, CCLA led an engagement coalition of investors with over \$3 trillion in assets to call on 30 oil and gas, construction, and hospitality companies operating in the Gulf to disclose:

- whether they use migrant labourers and how they are remunerated
- the steps they had taken to ensure that no recruitment fees had been charged and that identity documents had not been retained
- whether this had identified any issues and, if so, what steps had been taken to repay fees.

The responses to the request for data helped to identify a number of concerns about the general practice of companies - with some contradicting ILO guidance on passport retention as a matter of policy - and has informed our wider engagement programme.

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## Good work and human rights stewardship summary

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### Key

- We are pleased with progress against our current engagement aims
  - Made some progress
  - No or limited response to engagement
  - \* No longer held in any of CCLA's portfolios
- 

### Ametek ●

Engagement focused on labour standards.

### Autohome\* ●

Engagement initiated on the company's approach to data privacy.

### Auto Trader ●

Engagement focused on the company's approach to data privacy.



“You’ve got to want to change.”

### Bank of America Corporation ●

Engagement was sought with the company to better understand their approach to risk management. We continue to seek further assurances from the company.

### BCE ●

Engagement focused on the company's approach to data privacy. We called upon the company to consider extending their training programme to cover all employees and contractors and enhance their approach to auditing their processes and systems.

### Cembra Money Bank ●

Engagement was sought with the company to better understand their approach to risk management. We continue to seek further assurances from the company.

### Compass Group ●

CCLA leads the Find it, Fix it, Prevent it engagement. Compass Group are very receptive to the initiative and are working on proactive steps that are currently confidential.

### Deutsche Boerse AG ●

Engagement focused on the company's approach to data privacy. We called on the company to consider enhancements to their approach to auditing their processes and systems.

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**Experian ●**

Engagement focused on the company's approach to data privacy following a data breach. Specific asks included, extending the firm's data privacy policy to cover all subsidiaries and business lines and extending the coverage of training programmes.

**Fidelity National ●**

Engagement focused on risk management approaches and data protection.

**IHG ●**

CCLA leads the Find it, Fix it, Prevent it engagement with IHG. We were pleased that the company disclosed the findings of their investigation into their operations in Oman. We consider this to be a leadership step, and are encouraging them to develop further policies and processes relating to the provision of remediation to victims.

**Iress ●**

Engagement commenced in June 2021 on data privacy, following the publication of a new three-year strategy. Our ask was to increase the coverage of the policy and training activity to all business lines and subsidiaries.

**Mastercard ●**

Engagement focused on data privacy commenced in June 2021.

**MoneySupermarket.com ●**

Engagement focused covered data privacy commenced in June 2021.

**Nice ●**

Engagement sought on data privacy.

**Rightmove ●**

Engagement covered data privacy, with a focus of the frequency of audit practices. Company confirmed that it would disclose additional information to investors.

**Rio Tinto ●**

We met the chair as part of a group of investors to discuss the company's actions following the destruction of the Juukan Gorge, a sacred aboriginal site. While we remain concerned about the destruction and the policies and processes that contributed to it, we note significant action from the company included the resignation of the CEO and other senior executives.

**Spark New Zealand ●**

Engagement conducted on data privacy.

**TransUnion ●**

Engagement conducted on data privacy.

**US Bancorp ●**

Engagement sought on data privacy.

**Verisign ●**

Engagement conducted on data privacy.

**Visa ●**

Engagement sought on data privacy.

## PROMOTING DIVERSITY THROUGH VOTING

Ten years ago CCLA was among the first asset managers to include concerns about boardroom diversity in our approach to voting at company AGMs. We believe that the best way to drive change on this important topic is to hold the relevant individual directors responsible for the lack of action. We do not support the re-election of the chair of the nomination committee (or, in the most egregious cases, all members of the nomination committee) if FTSE 350 constituent companies have not achieved at least 40% gender diversity or if non-UK companies, in targeted markets, have not appointed at least two female directors to the board.

On diversity beyond gender and following the recommendations of the Parker and McGregor-Smith Reviews in the UK, we also take account of ethnicity in our voting position. We aim for at least one Black, Asian and minority ethnic (BAME) board member for FTSE 100 companies. By 2024, we will also apply this position to the FTSE 350.

While board composition is important, promoting women and BAME individuals at sub-board level is key to ensuring a diverse management pipeline. We have therefore expanded our UK voting guidelines to include a consideration of the composition of leadership teams at key levels below the board.

Our ability to vote on this depends on the data that we can access. We are currently lobbying our voting data provider, Institutional Shareholder Services (ISS), to collect consistent ethnic background data for company directors across key markets in order to extend this approach.

Where these standards are not met, we vote against the re-election of a director and against the chair of the company's nomination committee. For the rolling year to 30 September 2021, lack of gender or ethnic diversity was the joint second most common factor associated with voting against a director's re-election and accounted for 19% of all dissenting director votes.



“I’m all for diversity in the boardroom, but I’ve got a bad feeling about this.”







# Health and wellbeing

## Healthy markets need healthy people and communities

**U**nderstanding companies' approach to managing health and safety has always been an important part of our approach to sustainable investment.

Over the past decade the investment industry has become acutely aware of the financial impact of companies getting health and safety wrong. From BP in the Gulf of Mexico to Vale in Brumadinho, there have been numerous high-profile incidents that have killed people, destroyed livelihoods and, as a consequence, had a significant negative impact on shareholder value.

Recognising this impact, prior to purchase companies in the most impacted sectors are prioritised for a health and safety assessment. This includes reviewing their approach to managing and minimising accidents, as well as the health impacts of their products and the impact of their operations. This can alter our investment decision and/or lead to companies being prioritised for engagement. Due to their products' significant negative impact on the population, CCLA does not invest in companies that generate more than 5% of their revenue from tobacco.

However, while much focus has been placed on the impact of health and safety fails at individual companies, investors have placed little attention on health and safety as a systemic risk. For this reason, CCLA has prioritised mental health as an area that requires investor attention and supports a number of other systemic health initiatives. These include, the Access to Nutrition Index and ShareAction's Healthy Markets Initiative – both of which look at the impact of the nutritional standards of food and beverage companies – and the Access to Medicine Index, which pushes for pharmaceutical companies to support global healthcare standards by making their products available at affordable prices.



## WHY WE SUPPORT THE ACCESS TO NUTRITION INDEX AND THE HEALTHY MARKETS INITIATIVE

More than 80% of all premature non-communicable disease deaths are attributed to four areas: cardiovascular diseases, cancer, chronic respiratory disease and diabetes. These diseases share four risk factors: exposure to tobacco smoke, harmful use of alcohol, unhealthy diet and physical inactivity.\*

Harm caused by tobacco and alcohol is important to our clients. Based on their feedback, we routinely screen for and exclude companies generating

high revenues from alcohol and tobacco.

Nonetheless, this ignores the problems of unhealthy diet and physical inactivity – not a simple matter of screening and exclusion. Therefore, the promotion of healthier diets continues to be an engagement priority for us. To that end, we are supporters and active members of the Access to Nutrition Index, the Access to Medicine Index, and ShareAction’s Healthy Markets Initiative.

In March 2021, we co-signed letters to Unilever, PepsiCo, Nestlé and Coca-Cola as part of our support for the Healthy Markets Initiative. The letters asked these investee companies to commit to producing healthier products and to make these products more available, affordable and accessible. The letters also sought details on how the companies are planning to improve sales from healthier products and whether there are long-term targets in place.

\*Pan American Health Organization and the World Health Organization.

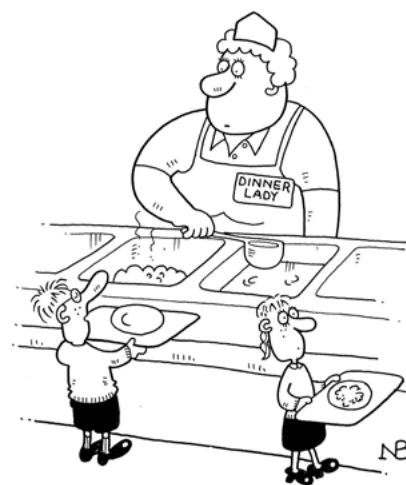
## PUSHING FOR QUALITY FREE SCHOOL MEALS

During the year we mobilised a £3 trillion coalition of asset owners, asset managers and other finance industry stakeholders to call on Compass Group to answer critical questions regarding the provision of food parcels in lieu of free school meals by its subsidiary, Chartwells, following allegations made in the press.

Coalition representatives signed an open letter to Compass Group’s CEO, Dominic Blakemore, expressing concern in response to reports that the food boxes provided by Chartwells to the most disadvantaged families in the UK are falling short of expectations.

Compass apologised and set out several immediate remedial actions (local quality checks, additional employees, helpline for schools and parents). They changed the offering, moving to one-week parcel deliveries, increased quantity and quality, provided recipe guides for families, free breakfasts, and parcels throughout the February half term. In addition, they committed to make no profit on the provision of food parcels.

We are grateful to the company for their prompt corrective action and commitment to do the right thing.



“Is the scab-e-matter custard and green snot pie organic?”

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## The CCLA Corporate Mental Health Benchmark

Companies faced unprecedented challenges in 2020 due to Covid-19. A major universal problem was – and continues to be – how to support and nurture a workforce grappling with multiple novel demands, without the natural shock-absorbers afforded by normal life. The UK has witnessed a major surge in mental ill-health.

Data reflects this. By June of 2020, the Office for National Statistics found that almost one in five adults was likely to be experiencing some form of depression in the UK, doubling from around one in ten before the pandemic. Depression is just one of many ways in which poor mental health can manifest itself.

We started to examine the subject of emotional wellbeing and mental illness at our investee companies in 2019. Following two years of research, data gathering, focused engagement and public consultation, we are now creating a new tool, designed to shine a public spotlight on corporate mental health practices for the very first time.

The CCLA Corporate Mental Health Benchmark is the culmination of sustained collaboration with wellbeing experts, data providers, charities and UK-listed companies. Having completed the pilot earlier this year, work is underway on the scope and design of the benchmark.

As responsible investors, we want our companies to be successful and to make a positive difference in their sphere of influence. Successful companies safeguard staff wellbeing because in doing so they also safeguard their economic wellbeing.

## The state of workplace mental health

Mental ill-health is a universally relevant problem. Regardless of age, race, religion or nationality; not one of us is immune. Given the huge costs associated with poor mental health in the workplace, it deserves attention from every single employer, across geography, industry and sector.

Even before Covid-19, mental ill-health was the greatest single cause of long-term absence from work in the UK. In 2018, it accounted for at least 57% of lost working days. Furthermore, the loss of productivity and the staff turnover associated with mental health problems costs an average of £1,652 per employee in the private sector. Poor workplace mental health should not be overlooked.

Despite increasingly frequent discussion in everyday life, one of the biggest obstacles to good workforce mental health is a reluctance to talk about it. Stigma around mental ill-health is real, and it persists.





One of the biggest obstacles to good workforce mental health is a reluctance to talk about it.

Our mental health engagement work over the past two years has shown that mental ill-health is difficult to discuss, monitor and address. Very few companies manage to do so effectively. Not for the first time we see that progress demands greater transparency, disclosure, and robust reporting.

While many companies that we engage with voice a willingness to improve, the vast, varied array of – often expensive – mental health training and resources available renders the work extremely difficult. As investors, it is almost impossible to differentiate leaders from laggards. Until now there has been no comprehensive blueprint for companies to follow and no basis on which to assess their efforts.

We have spent much of the year looking at the ways in which companies can provide effective support. The CCLA Corporate Mental Health Benchmark, in partnership with Chronos Sustainability, is a result of this work.

### **Investor and investee interests aligned**

Research prior to Covid-19 showed that in 2019, mental ill-health cost the UK economy between 3.6% and 4.9% of its total gross domestic product. Yet the main cost is human: one in six of the total population is currently experiencing a mental health problem. Many of those who are employed are afraid to discuss the issue or seek help at work.

By creating a positive environment for workplace mental health, companies will boost their ability to retain skilled employees, increase their productivity, reduce their financial outgoings, and strengthen their contribution to wider society. We want to drive collective, systemic advances in the way companies approach the wellbeing of their most precious assets – their people.

### **Footing the bill for poor mental health**

There is a clear moral case for supporting staff mental health, but the financial case is also compelling:

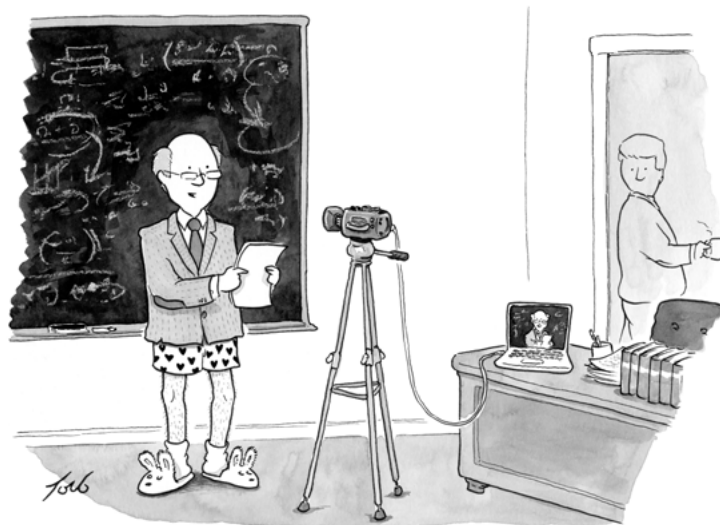
- Supporting mental health costs employers demonstrably less than failing to do so. A study published by Deloitte in 2020 shows overwhelmingly positive returns, with an average £5 return to employers for every £1 invested in workplace mental health, up from £4 in 2017.
- Mental ill health is the highest cause of long-term absence from work and accounted for 57% of the total number of lost working days in the UK in 2018.
- Mental ill health in the workplace costs employers between £42 billion and £45 billion a year, or an average £1,652 cost/year per employee in the private sector. This is the cost for every staff member, not just those who are ill.
- 300,000 people leave work each year because of a long-term mental health problem. The resulting staff turnover costs to the employer are estimated to make up £9 billion each year of the total £45 billion attributed to mental ill-health.
- If an employee is absent from work, others are left with an increased workload, with consequences including heightened stress, poor morale, and lower productivity.<sup>5</sup>

<sup>5</sup> For our full report on mental health and for more information on the research cited, please visit [www.ccla.co.uk/mental-health](http://www.ccla.co.uk/mental-health)

## MENTAL HEALTH DURING A GLOBAL PANDEMIC

In the thick of the first wave of the coronavirus pandemic, we gathered a £2.2 trillion investor coalition to address the UK's increasingly apparent mental health crisis. With their backing, we wrote a letter to the chief executive of every FTSE 100, urging them to protect the mental health of their combined 4.7 million employees during the pandemic. 74 companies responded and the quality of the replies varied widely. Of those who responded in writing:

- Most acknowledged the problem of mental ill-health in the workplace and said they were taking steps to address it.
- 89% had an Employee Assistance Programme (EAP) or equivalent and have signposted it to staff throughout the crisis.
- More than half say they offer specific, targeted mental health training for line managers. Some make it obligatory.
- 38% of the responses that we received were signed by the company's leader, with some showing real commitment to the cause.
- All respondent companies had made efforts to offer flexible working arrangements to employees during the pandemic, adjusting working hours, conditions, and routines to help staff navigate the crisis.
- One company supported approximately 3,000 employees over the age of 70, as well as vulnerable and pregnant staff, with 12 weeks' fully paid absence.
- Less encouraging was the revelation that only 10 companies said that they had relaxed or reviewed performance appraisals in light of the crisis.
- While EAPs are widely offered, usage is rarely monitored.
- Sadly, 26 companies did not respond.



“I’m honoured to share my research at your virtual academic conference.”

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## Good health stewardship summary

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### Key

- We are pleased with progress against our current engagement aims
  - Made some progress
  - No or limited response to engagement
  - \* No longer held in any of CCLA's portfolios
- 

### Abbott Labs ●

Engagement conducted on product safety. Company provided sufficient reassurance as to the quality of their approach.

### The Coca-Cola Company ●

We signed a letter to the company in support of the Healthy Markets Initiative, asking for engagement with the programme. This called for greater clarity as to how the company was planning to improve its sales from healthy products.

### Compass Group ●

CCLA focused on the company's response to allegations in the media about the quality of food parcels provided during Covid-19 lockdowns to pupils who were eligible for free school meals. The company provided a robust response, detailing actions taken to ensure future provisions exceeded expectations.

### Electronic Arts ●

CCLA has a long-standing engagement with EA in relation to protecting children from loot boxes. While not classified as gambling, loot boxes involve gamers spending money, in the hope of receiving a prized outcome (such as unlocking Lionel Messi) in a random draw.

A challenge for EA is that it does not control the several platforms on which its games feature. Following engagement, the company agreed to protect children by setting EA account balances to zero credits by default and requiring the authorisation of someone over 18 to be able to add to it.

### Genus Group ●

Engagement focused on product safety, following a poor review by an ESG data provider. We requested that the company enhance its disclosures and develop its policies on supply chain management, safety certifications such as ISO 14001, employee training and responsible marketing.

### Humana ●

Engagement focused on product safety, following allegations of the distribution of a contaminated product, and their approach to auditing data privacy policies and processes.

### Intuitive Surgical\* ●

Following poor ratings by our ESG data provider, engagement focused on the company's approach to product safety. Discussion focused on whether their new approach to product certification would cover suppliers, the scope of their supplier training programme and whether they implemented an ethical marketing policy.

### Johnson & Johnson ●

Engagement focused on product safety and responsible marketing commenced in June 2021. We received a comprehensive response from the company, who will better engage with data providers to provide a more accurate overview of the company.

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### **Nestlé ●**

As part of our support for the Access to Nutrition Index (ATNI), we joined a collaborative engagement call. Asks related to each of the index's assessment criteria, under the broad themes of: governance; products; accessibility and affordability; responsible marketing; labelling; marketing of baby milk substitutes; lobbying. It is clear that the company has taken many of the ATNI's 2018 recommendations on board and progress has been achieved in a number of areas. 2021 recommendations were discussed, and we are confident that the company is moving in the right direction.

### **Novartis ●**

Engagement focused on product safety, with a specific focus on the frequency of training for suppliers. We were reassured that Novartis was in the process of developing a new responsible sourcing framework, which would cover this issue.

### **PepsiCo ●**

Through our routine evaluations we became aware that a subsidiary of PepsiCo had not met accepted norms regarding the responsible retail of baby milk substitutes. While the revenue derived from the product is less than 0.05%, and therefore PepsiCo is not considered eligible for rating under initiatives such as the ATNI, we recognise the importance of appropriate conduct in this important area, and prioritised the company for engagement.

On the back of CCLA-led dialogue, PepsiCo has published its responsible marketing policy for baby milk substitutes on its website and is exploring the potential for independent audits of the implementation of this policy.

In addition, we signed a letter to the company in support of the Healthy Markets Initiative, asking for engagement with the programme. This called for greater clarity as to how the company was planning to improve its sales from healthy products.

### **Stryker Corp ●**

We engaged with the company on concerns about their approach to product safety. This was instigated due to a poor rating by a data provider. The company were able to provide additional details about their approach and committed to filling gaps within their reporting.

### **Target Healthcare ●**

Engagement was prioritised following the Care Quality Commission identifying concerns at a care home within the Target Healthcare portfolio. We were reassured that the company had a rigorous process for investigating and rectifying the poor standards. At one property this included a commitment to change the manager.

### **Unilever ●**

We have engaged with Unilever as part of our support for the Access to Nutrition Index and the Healthy Markets Initiative.

### **UnitedHealth Care ●**

Engagement focused on product safety, following concerns identified by a data provider. The company provided information that reassured us that the score was not a fair reflection of their practice.





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# Exercising governance

## Corporate governance and investment

**W**e believe that companies with poor management or weak corporate governance are likely to underperform over the long term. We seek to integrate corporate governance analysis into all of our equity investment decisions and promote the adoption of best practice standards through engagement and our voting at company AGMs.

To better understand companies' corporate governance, we have developed a bespoke quantitative corporate governance rating tool which assesses companies' board structure, ownership, accounting practices and management capabilities. Supported by a qualitative review process this allows us to identify any strengths and weaknesses in their governance structure and how these adapt over the life of the holding.

### Corporate governance and our portfolios

We adopt a rigorous process to identify and remove companies with high governance risk from our investment universe, so our portfolios are biased against companies with low corporate governance ratings.

As of the 30 September 2021, we held eight companies whose corporate governance had been specifically approved as follows:

- NextEra Energy. Like a number of US companies, NextEra's structure includes a joint chief executive/chair role. The risk posed by this is mitigated by a Board with a majority of independent directors.
- L'Oreal, Estee Lauder, Novo Nordisk, Heineken, LVMH and Blackstone Group. Each of these companies has an unconventional governance structure due to concentrated owners. While this can act as a governance red flag, our review showed that the companies had high-quality management teams, a strong track record of delivering value for minority shareholders, and a long-term view driven by an inter-generational perspective.
- Alphabet. The company has developed an unconventional governance structure to protect themselves from the short-term nature of Wall Street investors.

## OUR APPROACH TO INTEGRATING CORPORATE GOVERNANCE

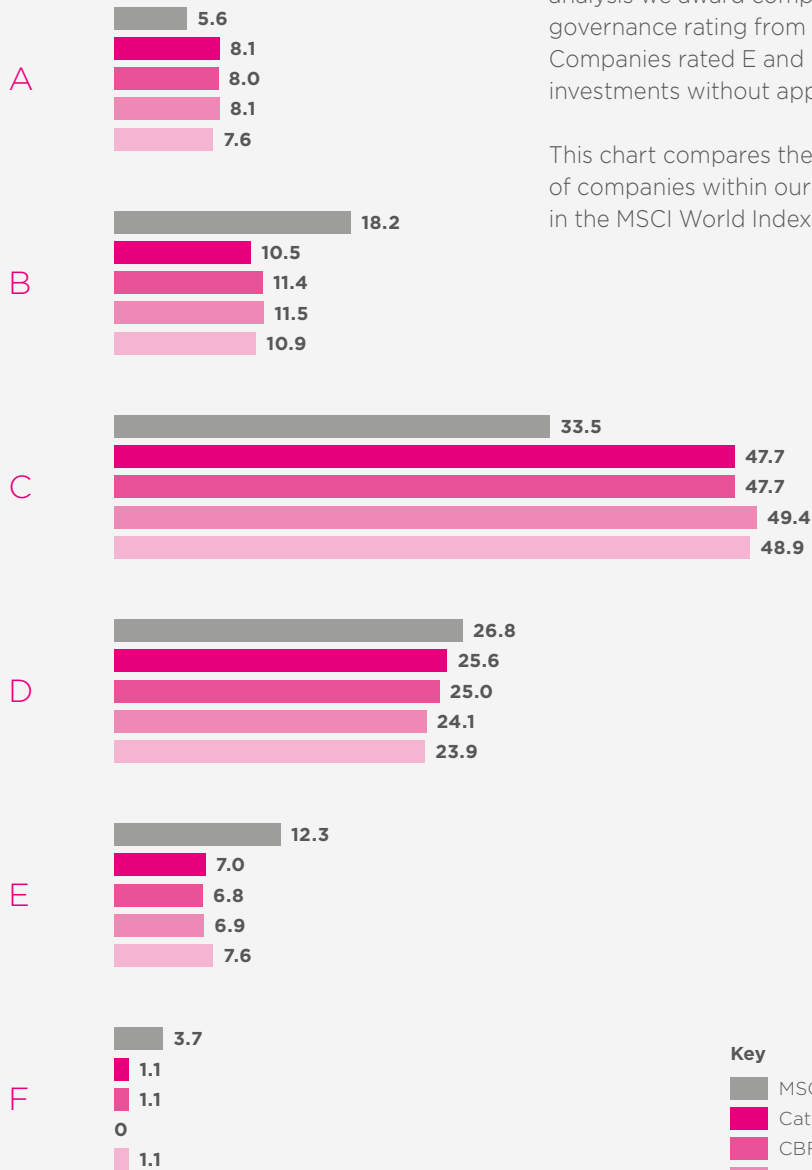
Poor corporate governance poses a substantial risk to the long-term performance of companies. For this reason, we have developed a process that includes bespoke quantitative and qualitative analysis to identify and remove companies with weak governance from our portfolio.

This operates as follows:

- 1 Corporate governance analysis must be conducted on all prospective equity investments and fixed interest counterparties prior to purchase. This means we review ratings with CCLA's bespoke governance rating tool and complete rigorous qualitative analysis.
- 2 Companies rated with a high governance risk, or who do not have appropriate independent auditors or who have received a qualified audit report, do not qualify for any CCLA portfolio. To meet our requirements these would need permission from the CCLA Investment Committee.
- 3 To be approved, the relevant investment analyst must demonstrate why a 'high risk' rating – or the auditors' qualification – is incorrect or not of concern. This normally requires detailed qualitative analysis, fact-finding discussions with the company and ongoing, target-based engagement.
- 4 Should an existing holding's rating decline to a 'high risk', a full governance review is required and a decision on continued investment is required within one week.
- 5 A review of high governance risk companies and the portfolio structure by governance rating are standing agenda items at the CCLA Investment Committee meetings.

Our approach to integrating corporate governance meaningfully alters the composition of our portfolios.

## OUR PROPRIETARY GOVERNANCE RATING



Using our governance rating tool and qualitative analysis we award companies a corporate governance rating from A (best) to F (worst). Companies rated E and F are not permissible investments without approval and engagement.

This chart compares the governance ratings of companies within our key funds with those in the MSCI World Index.

Source: CCLA, Credit Suisse Holt and MSCI, as at 30 September 2021.



The application of our bespoke template led us to oppose nearly five times as many management proposals as the standard ISS template.

### Our proxy voting record

As part of our active ownership programme, we aim to vote at all public meetings held by our investee companies.

During the year we voted on 3,160 resolutions at 222 company meetings.

Our approach to voting is designed to promote best-practice corporate governance, tie in with our wider stewardship priorities and reflect our clients' values. We take a strong position on excessive and poorly aligned executive remuneration proposals, gender diversity in company leadership and environmental sustainability.

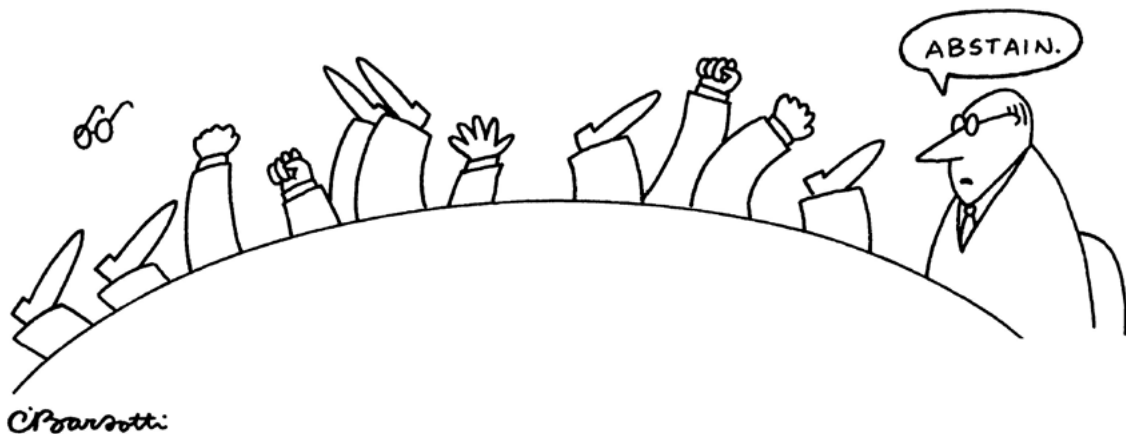
As shown in the charts opposite, we target our dissenting votes on the re-election of relevant directors. For instance, we vote against the chair of the remuneration committee where we have concerns about executive pay plans, the chair of the nomination committee if the company has a poor approach to gender diversity, and the chair if the business is not adequately addressing climate-related risk.

### Impact of the CCLA vote template

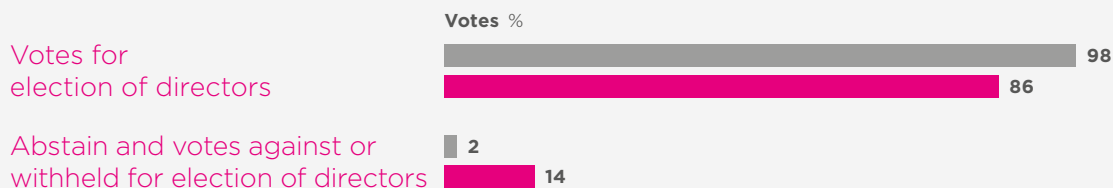
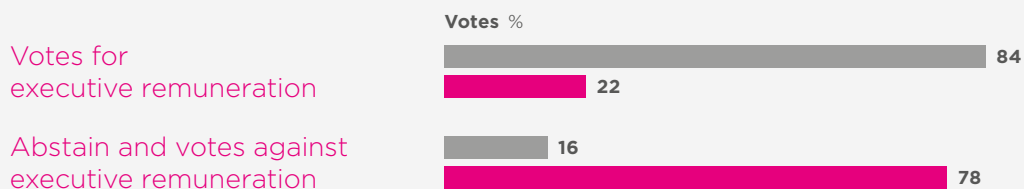
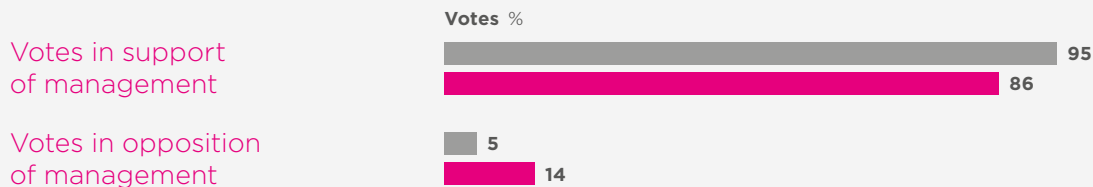
In executing our voting activity CCLA uses ISS, a specialist vote provider. The application of our bespoke template led us to oppose nearly five times as many management proposals as the standard ISS template.

We did not support management proposals on 14% of occasions, whereas if we had applied the vote recommendation in ISS's standard template this would have reduced to 3%.

Our vote record on addressing issues with executive remuneration best illustrates the template's impact. While ISS recommended support for over 80% of remuneration report or policy votes, we identified concerns and withheld support for nearly the same number.



## CCLA'S VOTING RECORD COMPARED TO ISS



**Key**  
 ISS  
 CCLA

Source: CCLA and ISS, as at 30 September 2021.

Finally, we believe that directors should be held to account for their actions. As shown above, we target our dissenting votes on the re-election of relevant directors. Putting this into context, we voted against 78 remuneration committee members and 34 nomination committee members.

To increase the impact of our votes we write to all companies prior to the meeting about our plans. We place particular focus on any resolution where we do not propose to support management and provide an overview of our concerns.

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## Corporate governance stewardship summary

### **Blackstone Group** ●

Our engagement with the company has focused on the composition of its board, where we would like to see the appointment of a lead independent director. We are pleased with the company's constructive dialogue on this issue.

### **Bluefield Solar** ●

Our engagement focused on an alleged financial incident. We were reassured that appropriate increased controls were put in place.

### **Empiric Student Property** ●

We are engaging with the company regarding the composition of board committees.

### **Nestlé** ●

We engaged with Nestlé regarding the composition of their executive remuneration policy. We are reassured that the relationship between variable and fixed pay is in line with industry standards and agreed to explore the inclusion of an ESG metric in the plan.

### **RWS Holdings** ●

Follow-up discussion to previous successful engagement. Our focus is the creation of appropriate succession plans.

### **US Solar Fund** ●

Our engagement focused on their response to a financial incident. We were reassured that an auditor had been appointed to conduct a full independent review.



“Every now and then, I find myself in a room filled with people who are wrong.”

# Get Real, Get in touch

We'd love to hear from you.

## CCLA

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## Images

### Courtesy of Koesler Arts

Page 4, *Apple For Eve!*

HM Young Offender Institution Cookham Wood  
Platinum Award for Painting

Page 6, *Peacock Canvas*

The Ayr Clinic (secure mental health unit)  
Mixed Media

Page 8, *Meltdown*

HM Prison Long Lartin  
Patrick Holmes Platinum Award for Painting

Page 14, *Dandelion*

HM Young Offender Institution Werrington  
Arts Society Cambridge  
Under 18s Special Award for Painting

Page 16, *A Break from the World*

HM Young Offender Institution Aylesbury  
Arts Society Chiltern Hills Area  
Highly Commended Award for Painting

Page 22, *Lighthouse*

HM Prison Castle Huntly  
Belpech Trust First-Time Entrant Award for Painting

Page 36, *Mona-Keys*

HM Prison Whatton, Painting

Page 44, *Place I Miss Most (Being Inside)*

HM Young Offender Institution Aylesbury  
Arts Society Chiltern Hills Area  
Commended Award for Watercolour and Gouache

### Other images

Pages 11 and 39, Millie Nice

Cartoons sourced from CartoonStock

## Disclaimer

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**CCLA**

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