Response to the UK Stewardship Code Principles

Covering the reporting year to end of March 2024

Contents

This report is CCLA's response to the Financial Reporting Council's Stewardship Code for the financial year 2023–2024. The Stewardship Code comprises a set of 'apply and explain' principles for asset managers in order to increase the effectiveness of the investment industry's approach to stewardship.

The Code sets out 12 principles for asset owners and asset managers to explain their approach. This covers 'purpose and governance', 'investment approach', 'engagement' and 'exercising rights and responsibilities'.

This document sets out how CCLA, in its role as an asset manager, undertakes stewardship for its mandates and applies each of the twelve principles of the code.

CCLA supports Koestler Arts

Koestler Arts is the UK's leading arts charity. It is nationally respected for its ground-breaking work using the arts as a catalyst for positive change in the lives of people within the criminal justice system and in the public's perception of their potential.

Cover image courtesy of Koestler Arts. *The Lighthouse*, HM Prison Castle Huntly, Belpech Trust. First-Time Entrant Award for Painting.

koestlerarts.org.uk

Foreword

According to the Financial Reporting Council (FRC), stewardship is defined as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

We welcome the principles set out by the FRC's Stewardship Code 2020 and this document sets out our approach to each.

We believe that investment markets can only be as healthy as the environment and communities that support them and that we need to do our bit to build a better world. Accordingly, and as demonstrated in the following pages, we emphasise the role of active ownership and engagement in our stewardship activity.

This isn't marketing rhetoric; it is a firm-wide recognition that sustainability matters. It is an acknowledgement that the sustainability headwinds of today will become the economic headwinds of tomorrow, and that continuing to deliver financially for our clients requires us to be part of the solution.

Most importantly, it is the conviction that will enable us to fulfil the purpose on which CCLA is built: to help our clients maximise their impact on society by harnessing the power of investment markets.

Peter Hugh Smith
Chief Executive

'Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'

The Financial Reporting Council, 2019

Purpose and governance

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Signatories to the FRC's 2020 Stewardship Code should explain:

- the purpose of the organisation and an outline of its culture, values, business model and strategy
- their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why.

CCLA primarily provides investment management products and services to charities, religious organisations and the public sector.

Our purpose is to help our clients maximise their impact on society by harnessing the power of investment markets. This requires us to provide a supportive and stable environment for our staff and deliver trusted, responsibly managed and strongly performing products and services to organisations, irrespective of their size.

Our investment beliefs

As an asset manager our aim is to deliver, consistent 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 aim to limit risks before they negatively impact upon the performance of our clients' assets and the function of society.

Assess

Within equity 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'.

Our business model

CCLA is the UK's largest manager of charity investments (*Charity Finance* Fund Management Survey November 2023). In April 2022, we launched our first retail fund: the CCLA Better World Global Equity Fund. In February 2024, we expanded our retail offering and launched the Better World Cautious Fund. This supplements our core business of managing money on behalf of charities, faith organisations and local authorities.

Based in the City of London, with an office in Edinburgh, we are largely owned by our clients' funds. This means that a significant percentage of our dividends are returned to the charitable sector to further their good works.

We managed over £14.5 billion (as at the end of March 2024) on behalf of over 30,000 not-for-profit clients and offer a variety of different investment solutions to meet their needs. These include:

- multi-asset class pooled funds
- single asset class pooled funds, which cover bonds, cash, equities and property, and may be used alone or in combination usually as part of a client's investment strategy
- a managed funds service, that offers clients a portfolio made up of CCLA funds
- segregated investment services for clients where, for various reasons, pooled funds are not appropriate

While our clients are UK based, we are global investors. Our funds and products are managed responsibly and in line with our clients' values.

Activity and outcome

Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship and disclose:

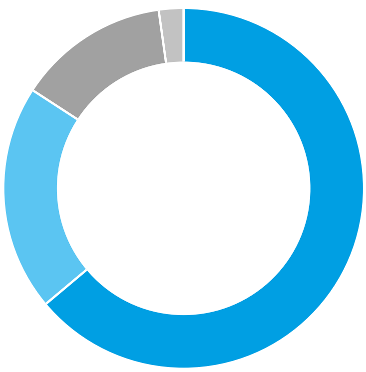
- how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and
- an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

During the reported year, we have continued to implement our Good Investment philosophy into our active ownership activities and our asset selection as follows:

Active ownership ('Act')

Climate action failure, social cohesion erosion, public health crises; these risks represent system-wide dangers to the environment and the function of society. As the guardians of the assets that we manage, and as long-term investors, we have a duty to try to tackle them.

ASSETS UNDER MANAGEMENT



Client type	AUM (£m)	%
Charities	9,297	64.1
Churches	2,923	20.1
Public sector	1,999	13.8
Retail market	293	2.0
Total	**14,512**	**100.0**

Source: CCLA, as at 31 March 2024.

To act as a catalyst for change in our industry, and to maximise our impact, we continued our focus on addressing long-term systemic sustainability issues that have not had the attention from investors that they deserve.

We continued to implement our 'flagship' engagement programmes that focus on addressing mental ill-health in the workplace and modern slavery. These projects continue to deliver change that we believe would not have come about without CCLA's intervention.

One example is the CCLA Corporate Mental Health Benchmark, which is designed to incentivise and motivate listed companies to improve their approach to mental health in the workplace. This project is prioritised for two key reasons:

1. Evidence suggests that mental ill-health in the workplace represents a material risk to investors. Deloitte estimates an average annual cost of £1,652 per private sector employee. For a company employing 10,000 people, that equates to an estimated loss of £16.5 million every year.[1]
2. Mental health has not had the attention from investors that we believe it deserves. This was evidenced by our initial engagement with 11 investee companies on this topic in 2019; we were told repeatedly that we were the only investors asking questions about mental health in the workplace.

Creating a positive environment for mental health costs much less than failing to do so. In the UK, Deloitte found an average return of £5.30 for every £1 invested in mental health interventions in the workplace. Globally, for every US$1 invested in scaled-up treatment for depression and anxiety, there is a US$4 return in better health and productivity.[2] The case for investor action is clear.

Following three years of research, data gathering, focused engagement and consultation (2019-2022), we created a new tool, designed to shine a light on corporate mental health practices for the first time. The CCLA Corporate Mental Health Benchmark is the culmination of sustained collaboration with mental health experts, data providers, charities and listed companies.

In May 2022, we launched the UK 100 benchmark, followed by the Global 100 benchmark in October. Companies are assessed and ranked into one of five performance tiers (Tier 1 being the leaders). The companies in the two inaugural benchmarks collectively employed more than 24 million people.

The benchmarks provide an objective assessment of listed companies employing more than 10,000 people. They do not attempt to gauge the 'happiness level' of a company's workforce. Rather, to evaluate the extent to which employers provide the working conditions where their people can thrive, based on a company's public disclosures.

In 2023, we assessed benchmark companies for a second time. UK company assessments took place in March 2023, and global benchmark assessments took place in June. The results are as follows:

- In 2023, we assessed 207 listed companies on their approach to mental health in the workplace.
- 119 of the benchmarked companies engaged directly with us on this topic between the 2022 and 2023 benchmark publications.
- 42 companies improved sufficiently in 2022–23 to move up at least one performance tier, of which 14 were owned in CCLA portfolios at the end of 2023.
- The 42 improver companies employ between them more than seven million people worldwide.

2024 UK company assessments took place in March, just before the end of the reporting period.

When it comes to climate-related stewardship work, our approach is slightly different. We do not invest directly in any companies that focus on extracting, producing or refining coal, oil sands, oil or gas, nor any company in a high carbon sector that we believe does not align with the Paris Agreement. Consequently, our ability to contribute meaningfully to a low carbon economy through direct engagement with the companies that we invest in is more limited.

Our active ownership work targets the 30 largest greenhouse gas (GHG) emitting listed equity holdings in our portfolios and during the reporting year included banks, consumer goods, electrical utilities, healthcare, industrials, information technology, infrastructure, materials and mining businesses.

Meanwhile, we retain our focus on work to bring about better and more progressive climate-related regulation and legislation. It is our belief that governments must create the conditions that render it economically viable to phase out damaging activities, not least in relation to climate change. For this reason, we are working with policymakers, both in the UK and overseas, towards more meaningful regulatory action. This includes the UK and Canadian governments' Powering Past Coal Alliance and the Transition Plan Taskforce.

ESG integration ('Assess')
While active ownership is the focus of our work, we are mindful that some environmental, social and governance factors can influence company performance. For this reason, we seek to integrate these factors into our investment process with the sole aim of supporting risk adjusted returns.

We acknowledge that a combination of legislation, regulation and changing societal preferences can impact negatively on the cash flow of the most unsustainable business models. Within our equity investments, we take deliberate steps to uncover - and avoid - 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
- failing to demonstrate a willingness to improve through investor engagement.

Our approach is designed to help us identify and address any extra-financial risks that may come to harm investment returns in the future.

Prior to purchase, we assess companies' ESG risks in conjunction with their financial position. This approach applies to all listed equities irrespective of their geography or sector. See Principle 7 for details.

Climate risk is a key consideration in this area. In the medium term, we recognise that companies in high-carbon industries will face increased regulation and legislation that will disrupt their business models. We therefore avoid investing in companies that we consider most damaging to the environment (please refer to our A climate for Good Investment report, with restrictions set out on page 18).

As a result of our climate-related restrictions, as well as our preferred investment style, our equity portfolios had a carbon footprint, implied temperature rating and climate value-at-risk scores considerably below that of the MSCI World Index (as at 31 March 2024). Our funds also had better-than-benchmark corporate governance ratings (see page 23 for further details).

Values-based restrictions ('Align')
The majority of our clients' assets are invested in accordance with 'values-based investment policies', which are designed to align clients' portfolios with their values and social obligations.

Such policies set limits on the type of company that can enter an investment portfolio and are based on a company's revenue from certain business activities; typically, those that cause harm that cannot be mitigated or reversed and which our clients prefer to avoid.

Values-based investment policies for our funds are informed by feedback from periodic consultation with our clients, the most recent of which was completed in February 2023.

There were zero breaches of values-based investment policies during the reporting period.

Transparency
We believe in the importance of transparency and publish our voting record and highlights of our engagement programmes on our website every quarter. In addition, every year we release a detailed annual Sustainable Investment Outcomes Report. This sets out our responsible investment policies, how we have performed against them and a progress report on our engagement activities.

Assessment of effectiveness
We believe that our approach to exercising stewardship has effectively met the requirements of our clients. Our most recent PRI assessment process was published in December 2023. CCLA received 5 stars (out of 5) for our approach to 'Policy Governance and Strategy', 'Direct Listed – Equity' (how we integrate ESG in listed equity) and 'Confidence Building Measures'. We received 4 stars for our approach to 'Direct – Real Estate' (how we integrate ESG in property).

Resources
During the reporting year, the specialist sustainability team was comprised of 11 team members. The breakdown of the team, including their responsibilities, and experience is included in our response to Principle 2 on page 10.

While CCLA has a well-resourced specialist team, we recognise that implementing our approach to stewardship is the responsibility of every member of staff. We continued to encourage our investment management and client relationship team members to further develop their stewardship knowledge. This includes providing the opportunity for our investment professionals to study for stewardship qualifications and encouraging our staff to attend relevant 'lunch and learn' sessions on sustainability. In addition, the sustainability team regularly briefs the company on their stewardship activities, as part of our weekly 'all staff briefing'. This approach has helped contribute to our strong collegiate corporate culture and our company-wide commitment to stewardship.

As at 31 March 2024, 25% of our investment and 43% of our client relationship management staff held the CFA's Certificate in ESG Investing.

Governance
Our stewardship activities are guided by formalised policies and monitored and overseen by both internal and external parties (see Principle 2).

OUR PRI SCORES

PRI module	CCLA star score	CCLA percentage	Median
Policy Governance and Strategy	★★★★★	95%	60%
Direct – Listed Equity – Other (how we integrate ESG in listed equity)	★★★★★	98%	51%
Direct – Real Estate (how we integrate ESG in property)	★★★★	69%	62%
Confidence Building Measures	★★★★★	100%	80%

Source: PRI Assessment Report 2023.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Activity and outcome

Signatories to the Stewardship Code should explain how:

- their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach
- they have appropriately resourced stewardship activities, including:
  - their chosen organisational and workforce structures
  - their seniority, experience, qualifications, training and diversity
  - their investment in systems, processes, research and analysis
  - the extent to which service providers were used and the services they provided; and
- performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision making.

Signatories should also disclose:

- how effective their chosen governance structures and processes have been in supporting stewardship
- how they may be improved.

Our stewardship activities are conducted within a strict governance framework.

Policies and standards
CCLA's stewardship activity is conducted in line with agreed policies and processes. These include:

- Our Engagement Policy, which includes using our ownership rights to improve the environmental and social performance of the assets in which we invest, bringing investors together to address systemic risks that have not received the attention that they require, and seeking to be a catalyst for change in the investment industry.
- Our Proxy Voting Policy, which sets out our approach to voting our clients' shares in company meetings.
- Our Climate Change and Investment Policy, which sets out our approach to identifying climate risks and opportunities, how this impacts upon our approach to asset selection and how we monitor climate risk.
- Our Values-Based Screening Policy, which are incorporated into the scheme particulars of our pooled funds, and which identify how we tailor the product to meet clients' values.

Our performance against these policies is disclosed annually in our Sustainable Investment Outcomes Report.

POLICY GOVERNANCE AND STRATEGY

Oversight

1. Internal oversight

Our sustainable investment policies, processes and activities are approved, overseen and monitored by CCLA's Investment Committee, which meets quarterly and is chaired by our Chief Executive.

Quarterly sustainable investment reports are provided to CCLA's board and Executive Committee. CCLA's board also oversees our approach to climate-related risk in portfolios. For details, please refer to A climate for Good Investment (ccla.co.uk) (page 10).

CCLA also operates an Enterprise Risk Management Framework (ERMF) to identify, monitor, manage, measure and report on sustainability risk, a key risk included in our risk taxonomy. The ERMF leverages the risk taxonomy to set risk appetite statements and throughout its core risk management tools such as risk event management, risk and control self-assessments, key risk indicators and corporate risk profile assessments. Specific risks and controls pertinent to CCLA's sustainability team are reviewed and challenged by the Enterprise Risk function on an annual basis.

This governance framework is designed to assure the effective implementation of our stated approach.

2. Advisory oversight

Quarterly sustainable investment reports are provided to the trustees of our church and charity investment funds.

3. Internal and external audit

CCLA's internal audit function reviews areas of the business on a revolving basis. The sustainability team was not formally audited during the reporting period. However, it did undergo an advisory exercise with EY.

Workshops were held with members of the sustainability team to discuss the regulatory landscape, governance and oversight expectations, and advise of external best practice, including key areas for improvement for CCLA. These included strengthening our ESG governance structure and developing our communications around strategy and management of key activities. Work is underway to address these areas, with key disclosures due to be published in next year's reporting period. Our stewardship activities were last reviewed in late 2021.

Stewardship resourcing

We believe that stewardship is the responsibility of all our staff, however our work is led by a well-resourced, specialist, sustainability team which is led by CCLA's Head of Sustainability. The team forms one of the three pillars of our investment management function. The Head of Sustainability is a member of the company's Investment Leadership Group (see chart below).

Investment Leadership Group

Ben Funnell
Solutions
Strategic asset allocation, alternatives, property, fixed income, cash and risk management
11 team members

Charlotte Ryland
Investments
Core investment engine, analysing global equities
10 team members

James Corah
Sustainability
ESG integration
Active stewardship
11 team members

Source: CCLA, as at March 2023. James Ayre resigned from CCLA during May 2023.

As at 31 March 2024, 11 sustainability experts (nine full time equivalent) comprised our sustainability team of which six had experience in the sustainable finance industry of more than 10 years.

The team members have differing educational backgrounds, a variety of academic and professional qualifications including PhDs and CISI certificates and has 64% female and 36% male gender diversity.

To supplement this experience, team members that have not done so already will sit the CFA Certificate in ESG Investing or the CFA Certificate in Climate and Investing in 2024/2025.

Systems and data
The accurate implementation of values-based investment policies and related exclusions are supported by dedicated data streams sourced from third parties and/or developed on a bespoke basis in-house. These are set out in the table on page 11 and are integrated into our order management system to prevent the purchase of any security that would violate a defined exclusion.

We regularly communicate with our data providers so that they are aware of the purposes for which we use their data, to inform them of any data accuracy concerns that we might have and/or to help them further develop their products.

Rewards and incentives
Stewardship is included in the competency assessments of investment management staff. Variable pay is provided on a discretionary basis and is not allocated subject to fixed key performance indicators. We believe this enables us to reward our staff for their wider contribution to the company's culture and to meeting our clients' objectives.

Assessment of effectiveness
Policies, combined with formal and regular oversight (both internal and external), give us confidence that our approach to the governance systems surrounding our stewardship work is effective and designed to meet the interests of our clients. This is demonstrated by our high PRI Assessment scores across both policy and governance (Policy Governance and Strategy) and integration in our equity process (Direct – Listed Equity – Other) (see page 24).

Nonetheless, we recognise the opportunity to improve our approach to data verification in our stewardship activities, as set out in Principle 5.

SUSTAINABILITY TEAM EXPERIENCE, QUALIFICATIONS AND RESPONSIBILITIES

Name and job title	Years in industry	Years at CCLA	Years in role	Qualifications	Responsibilities
Andrew Adams Senior Analyst: Sustainability Data & Proxy Voting	12	12	1	BA, MSc	Andrew has worked in sustainable investment for 12 years. He supports the stewardship work of the team through maintaining various data systems and leading the day-to-day work of proxy voting.
Amy Browne Stewardship Lead	14	4	4	BA, CISI, PCIAM, IAD, IMC, CFA Cert ESG Investing	Responsible for leading and coordinating CCLA's stewardship activity across all areas, from public health and environment to corporate labour standards. Amy led the development of the CCLA Corporate Mental Health Benchmark and oversees the $9.9 trillion global investor coalition on workplace mental health that supports it.
Josephine Carlsson Church Ethics Lead & Secretary to the Church Investors Group	29	4	4	BA	Specific responsibility for church-related ethical issues within the sustainability team at CCLA. She is also Secretary to the Church Investors Group (a group of 60 institutional church investors predominately in the UK who have assets of approximately £21 billion), a role that involves promoting ecumenical collaboration and cooperation on ethical investment matters.
James Corah Head of Sustainability	14	14	9	BA, MSc, PhD, CFA Cert ESG Investing, FRSA	Responsible for CCLA's approach to sustainable investing. This includes our work to deliver real and lasting change through active stewardship, integrating environmental, social, and governance factors into our investment processes and ensuring that our portfolios are aligned with the values and mission of our clients.
David Ellis Director, Governance & ESG Integration	29	9	9	BSc (Econ)	Responsible for the development of CCLA's proxy voting policies and corporate governance stewardship programme. Additionally, he manages CCLA's implementation of ethical and responsible screening.
Helen Wildsmith Stewardship Director – Climate Change	34	16	9	BSc, MSc, PhD	Leads CCLA's climate change-related policy work and engagement with NextEra. Helen has been working with the Powering Past Coal Alliance since 2017 and sits on the Delivery Group of the UK Government's Transition Plan Taskforce (TPT) as an investment sector expert on mining and electrical utilities.
Clemence Chatelin Manager, ESG Integration	6	2	2	BSc, MSc, CFA Cert in ESG Investing, APFS	Responsible for the development of tools and approaches that enhance ESG integration in the investment process. She also leads engagement with banks on climate change.
Martin Buttle Better Work Lead	18	2	2	BSc, MSc, PhD	Responsible for our Better Work pillar of our sustainability strategy, which includes coordinating the 'Find it, Fix it, Prevent it' programme on Modern Slavery as well as broader engagements on Living Wage, Decent Work and Business and Human Rights.
Sara Thornton Consultant, Modern Slavery	5	1	1	MSc	As former Independent Anti-Slavery Commissioner, Dame Sara Thornton leads CCLA's policy engagement work as it relates to modern slavery and forced labour. She also oversees the development of 'Find it, Fix it, Prevent it' programme on modern slavery.
Sacha Davies Collaborative Stewardship Support	1	1	1	BSc	Provides support for the delivery of CCLA's engagement programmes on mental health, modern slavery, and the environment, including working on the Mental Health Benchmark and the Find it, Fix it, Prevent it initiative.
Tessa Younger Better Environment Lead	33	1	1	MA	Leads CCLA's 'Better Environment' work, managing all stewardship on environmental issues, including climate change and nature, with the aim of driving clear improvements at the companies in which CCLA invests.

SUSTAINABLE INVESTMENT DATA POINTS

Category	Data point	Comment	Use
Ethical screening	Sustainalytics' Product Involvement	This is a suite of data identifying companies' involvement in activities restricted by our clients.	The data is programmed into our order management system (OMS) to support compliance with the relevant portfolio's ethical screens.
	Urgewald	Additional ethical screening data covering companies' involvement in climate change related activities specifically based on gas extraction and coal fired power stations.	The data is programmed into our OMS to support compliance with CCLA's Climate Change and Investment Policy
	Norges Bank Investment Management	Additional ethical screening of companies that are excluded based on conduct: www.nbim.no/en/responsible-investment/ethical-exclusions/exclusion-of-companies	The data is programmed into our order management system (OMS) to support compliance.
International norms	Sustainalytics' Controversial Product Involvement	Sustainalytics reviews the media reports of company activities to identify any breaches of internationally recognised standards.	This is used by CCLA to monitor portfolio companies' position against the UN Global Compact. Companies identified as having the most serious controversies are entered into a time-limited engagement programme that, if progress is not made, can lead to divestment.
Climate change and investment	MSCI Carbon and Climate Portfolio Analytics	Data to identify companies' carbon intensity and to calculate the Scope 1 and 2 carbon footprint of our portfolios.	This is used to implement a maximum portfolio carbon footprint as mandated by our commitment to achieve net zero emissions in equity portfolios by 2050. MSCI climate value at risk data is also integrated into our risk management framework and disclosed as part of our climate risk reporting.
	Transition Pathway Initiative	Data to analyse companies' decarbonisation plans against the necessary net zero pathway for their sector.	This is used to inform our assessment of electrical utility and energy companies' position against the Paris Agreement. Non-aligned companies are restricted from investment on a 'comply/approve' basis. This means that companies that do not meet the necessary standard are only admitted to a CCLA-managed portfolio following the approval of the Investment Committee.
Corporate governance	Credit Suisse Holt and Sustainalytics Governance Scores	Data used as part of CCLA's corporate governance rating system. This provides 8,000 companies with an A (best-in-class) to F (worst) corporate governance rating. Companies rated E and F are restricted from investment on the same 'comply/approve' basis set out above.	
	ISS	Proxy voting research.	ISS supports our proxy voting by researching meeting resolutions against our bespoke voting policy. Suggested vote outcomes are checked by CCLA prior to lodging a vote.
Sustainability	Sustainalytics' ESG Risk Ratings	ESG data covering a wide range of ESG issues that are considered in CCLA's investment approach.	The data is used to implement CCLA's 'comply/approve' restriction (implemented on the same basis set out above) on companies whose ESG risk rating is severe and to assist equity analysts in integrating ESG considerations into security valuation.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

Signatories to the Stewardship Code should disclose their conflicts of interest policy and how this has been applied to stewardship.

Activities at CCLA are subject to our company-wide Conflicts of Interests Policy. This acknowledges that conflicts can take different forms, such as favouring one client over another, favouring a staff member over a client and/or favouring our shareholders over a client. We have established an approach so that CCLA, and its staff members, act in the best interests of its funds, its investors and/or its potential investors. This approach includes:

- identifying and managing conflicts
- conflict monitoring through internal audit reviews, risk assessments and compliance monitoring reviews
- education and awareness, which is provided via a compliance induction and set out in our compliance manual and associated policies, including personal account dealing and gifts, benefits and inducements
- conflicts disclosures to clients.

We recognise that our stewardship activities have the potential to give rise to conflicts of interest. For this reason, we have established policies and oversight for stewardship activity that are included in our Engagement Policy.

Our stewardship work is designed to align with the interests of all our clients. In developing and delivering stewardship programmes we attempt to not unduly prioritise the needs of any single client group and ensure that our priorities are not influenced by the outside interests of any CCLA employee, or other stakeholder.

For example, proxy voting is conducted by the sustainability team in line with an agreed Proxy Voting Policy. Any deviation from the policy requires the approval of a senior member of the sustainability team.

In addition, our stewardship work is prioritised and overseen by the Investment Committee. Further information about our approach to managing the conflicts of interest arising through our stewardship programme is available in our Engagement Policy.

Activity and outcome

> Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship. Signatories should also disclose how they have addressed actual or potential conflicts.

Despite our best efforts, we recognise that conflicts of interest can arise in our day-to-day stewardship activity. We have not identified any specific conflicts in the reporting period; however, we are aware that potential conflicts can include, but are not limited to, the following:

- A client's 'values-based investment policy' affects investment performance.
- Voting on the appointment of a company director with whom CCLA has an existing commercial or other significant relationship. For this reason, any deviation from our standard voting policy requires the approval of a senior member of the sustainability team.
- Our portfolios owning shares in companies subject to proposed merger or acquisition activity. This is unlikely, as CCLA only manages a single listed equity strategy. However, in such cases, we can vote different portfolios in different ways to reflect differing client requirements.
- Our clients having different views and priorities for engagement. For this reason, our stewardship programme is approved and monitored by the Investment Committee.

We believe that the governance framework set out above provides a robust approach to managing the risk of, and protecting our clients from, potential conflicts of interest.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity and outcome

Signatories should explain:

- how they have identified and responded to market-wide and systemic risk(s), as appropriate
- how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets
- the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples
- how they have aligned their investments accordingly.

We realise that some of the key environmental and social challenges facing the medium to long term performance of our clients' investments are systemic and cannot be eliminated through diversification. We also recognise that the investment industry has a poor track record in addressing systemic risks. At CCLA, we seek to be a catalyst for positive systemic change and have a proven track record of developing engagement initiatives that focus investor action on risks that have not been adequately addressed by the market. Regulation and legislation are key tools in managing systemic sustainability risks and we believe that we have a responsibility to work with public policy makers to push for progressive frameworks that accelerate positive change.

Our engagement prioritisation process is overseen by CCLA's Investment Committee. We seek to act as a catalyst for change on sustainability risks that have not had the attention from investors that they deserve. As such, our prioritisation process typically involves a review of existing investor action, as well as an analysis of the financial materiality and human and/or environmental impact of a given issue.

We recognise that the investment industry has increasingly focused on responsible investment and want CCLA's activity to be additive to, rather than replicative of, existing efforts. Before prioritising an issue, we consider the extent to which it would be possible for us to act as a catalyst for further action.

We prioritise a small number of issues for focussed attention. During the reporting year we have sought to address market failures that have contributed to climate change, poor workplace mental health, and widespread modern slavery in company supply chains. These risks apply to all or most companies, regardless of geography or industry, and are therefore considered 'systemic'.

One of the largest systemic risks facing investors is the effects of climate change. Unaddressed, anthropogenic global warming poses a systemic risk to the planet, our communities and the functioning of the global economy. To address this risk, financial markets need clear, comprehensive and high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in our changing world.

As stewards of our clients' investments, we believe it is critical that we use our financial power and ownership rights to push companies to reduce the emissions associated with their operations and value chains. CCLA has long supported work to limit the global temperature increase to below 1.5 degrees Celsius and is committed to accelerating the transition to a decarbonised economy.

During the reporting period we continued to deliver our engagement strategy on the topic of climate change and nature.

Prioritising public policy and regulation
Since 2018, we have been actively participating in the UK and Canadian Governments' Powering Past Coal Alliance, which seeks to facilitate the phasing out of unabated coal fired electricity generation from the world's energy mix. We are involved in the UK Transition Plan Taskforce's Delivery Group, established by the Treasury in April 2022, to set standards for private sector climate transition plans. During the reporting period, we also submitted a response to a Department for Transport consultation on transport infrastructure development, emphasising the sector's significant contribution to greenhouse gas emissions.

Engaging directly with investee companies on emissions reduction
Our strategy for achieving decarbonisation targets focuses on accelerating the transition to a low-carbon economy, rather than solely making changes to our funds' composition. We call this approach 'actions, not transactions'.

We have identified the top 30 carbon emitters (by absolute emissions) in our funds, and we engage with them to promote credible decarbonisation plans. Our approach to engagement is reminiscent of our legacy in this space: 'Aiming for A' which was the forerunner of Climate Action 100+. We are aiming for our top 30 emitters to achieve an A grade on the Carbon Disclosure Project (CDP) assessment and to retain that grade, with increasing demands from the assessment over time. We engage with them to promote credible decarbonisation plans so that real-world emissions reductions can be achieved.

We support new environmental initiatives where we believe we can add value
In the reporting period, this included Nature Action 100+ and the PRI stewardship initiative 'Spring'. Through these activities, we aim to drive meaningful change and demonstrate our contribution to a sustainable future.

We recognise that while the majority of climate change related impacts will affect the performance of markets as a whole, some sectors and companies will be disproportionately affected. Not only do we have concerns about the long-term valuation of these companies in light of the energy transition, but many are also incompatible with certain clients' values and social obligations. For these reasons, our portfolios are managed to low relative carbon footprints and currently have zero direct exposure to companies that focus on (defined by a revenue threshold) the extraction and refining of coal, oil or gas.

We remain concerned about the slow pace of the transition to a low-carbon economy and the impact that this could have on the long-term performance of our clients' assets. We will continue to prioritise this aspect of our work and will seek new ways in which we could contribute to accelerating climate action.

Our other major initiatives, namely those to address workplace wellbeing and modern slavery, are detailed elsewhere in this response.

Climate risk ratings for our portfolios
We believe that companies that fall behind the transition to a net-zero economy will be disrupted by changing legislation, regulation and consumer preferences. As a founding member of the Net Zero Asset Managers Initiative, we have committed to managing our listed equity investments to a carbon footprint that is below a decreasing maximum ceiling. The ceiling has been set based on the 2018 weighted average carbon emissions of the MSCI World Index and decreases in line with the IPCC Special Report on Global Warming of 1.5°C. These targets will be revised every five years, with the next review being due in 2026.

We routinely monitor our investee companies' carbon footprints. Due to data limitations, this currently only covers the Scope 1 and 2 footprints of our listed equity holdings.

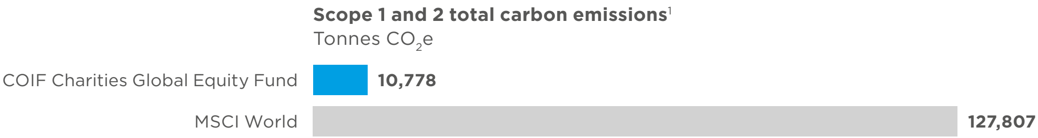
5☆

DIRECT – LISTED EQUITY – OTHER

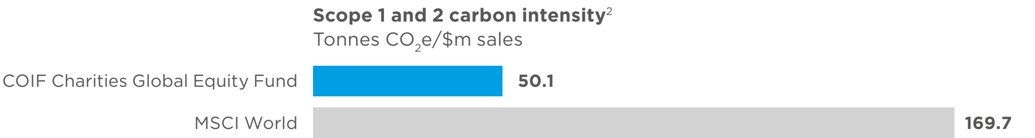
EXAMPLE OF CLIMATE RISK RATINGS

Data is provided for the COIF Charities Global Equity Fund throughout the response as an example of our equity investment strategy.

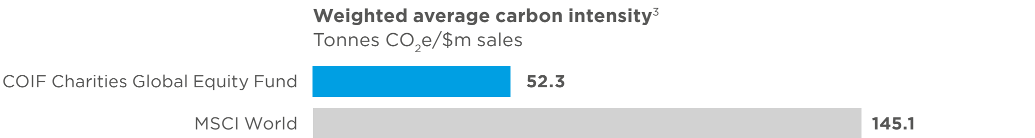
What is the portfolio's total carbon emissions?



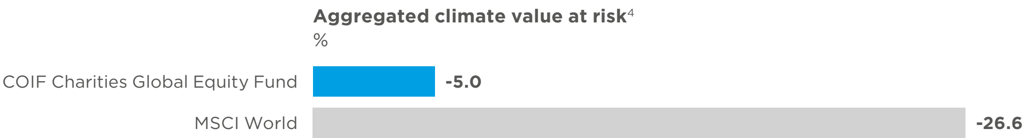
How efficient is the portfolio in terms of carbon emissions per unit of output?



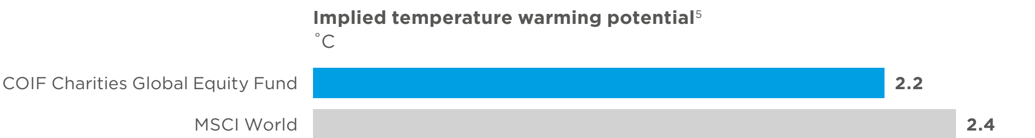
What is the portfolio's exposure to carbon-intensive companies?



What percentage of the portfolio's value is at risk due to climate change and the transition to a net-zero economy?



How aligned is the portfolio to global climate targets?



Source: MSCI ESG Carbon Footprint Calculator, as at 31 March 2024.

1 Measures the total carbon emissions for which an investor is responsible by their equity ownership. Emissions are apportioned based on equity ownership (i.e. percentage of market capitalisation).
2 Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their equity ownership. Emissions and sales are apportioned based on equity ownership (i.e. percentage of market capitalisation).
3 Measures a portfolio's exposure to carbon intensive companies, defined as the portfolio weighted average of companies' carbon Intensity (emissions/sales).
4 The aggregated climate value-at-risk score assesses the potential percentage of the portfolio's value that is put at risk by policy and physical risks associated with climate change and the transition to a net-zero economy. The policy risk score is based on the Remind 1.5°C (orderly) Warming Scenario, which assumes that global legislators will introduce policies that limit temperature rises to 1.5°C. The physical risk score is set to aggressive, it thus identifies the cost of the most impactful physical climate change risks
5 The temperature gauge illustrates a portfolio's aggregated warming potential, with the decarbonisation targets that constituent companies have taken into account.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity and outcome

Signatories to the Stewardship Code should explain:

- how they have reviewed their policies to ensure they enable effective stewardship
- what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach
- how they have ensured their stewardship reporting is fair, balanced and understandable.

Signatories should also explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.

Our stewardship approach is subject to strict internal governance and a process of continual improvement to enable its effective implementation.

CCLA's Investment Committee oversees and evaluates the effectiveness of all our stewardship activity. Should any aspect of our stewardship programme not achieve the intended result, it is subject to review, reassessment and reformulation.

Key parts of our active ownership work, and all the reports that we issue, are reviewed by CCLA's compliance function. This helps us to ensure that our stewardship reporting is fair, balanced and clear.

To provide further reassurance, we employed specialist consultancy, Chronos Sustainability, to provide an external review of our annual PRI assessment process submission.

During the reporting period, we sought to enhance our approach to ESG integration, which included a tender process and resulting change of data provider. In March 2024 (the final month of the reporting period), we transitioned our primary ESG data provider from MSCI to Sustainalytics.

Our updated approach involves assessing the most financially material sustainability risks affecting companies using Sustainalytics' ESG risk rating, which is based on widely recognised materiality frameworks, including Sustainability Accounting Standards Board and the Global Reporting Initiative. Any company with an ESG risk rating of over 35 (considered high-risk) requires Investment Committee approval. There were no companies requiring approval under either the new (Sustainalytics) or old (MSCI) system during the reporting year.

We recognise the need to further increase oversight and authentication of our stewardship data and work is underway to address this.

Investment approach

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

Signatories to the Stewardship Code should disclose:

- the approximate breakdown of:
  - their client base, for example, institutional versus retail, and geographic distribution
  - assets under management across asset classes and geographies
- the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why.

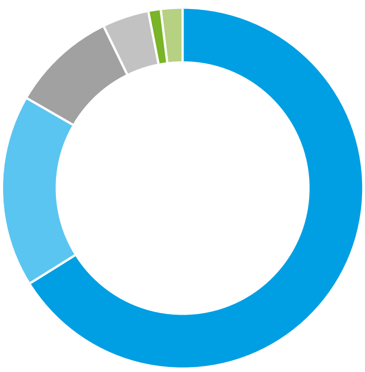
CCLA is the UK's largest manager of charity investments (*Charity Finance* Fund Management Surveys November 2021, 2022 and 2023). Managing investments for charities, religious organisations and the public sector is what we do. We only distribute products and services within the United Kingdom. At the end of the reporting year, we managed over £14.5 billion on behalf of over 30,000 not-for-profit organisations, and, following the launch of the Better World Global Equity Fund and Better World Cautious Fund, a number of private investors.

The majority of our clients invest via one or more of our specialist pooled funds. These include five multi-asset pooled funds, and specialist funds covering global equities, UK equity, fixed income, property and cash.

As charities, most of our clients have long-term investment time horizons, so we manage their funds with the aim of maximising long-term investment returns. We seek to invest in companies with strong long-term growth prospects and have a relatively low portfolio turnover, at *c.*20% per annum.

We also recognise that some of our clients are permanently endowed and will, therefore, face certain risks that will not be realised in conventional investment time horizons. For this reason, we place significant emphasis on pushing for progress in addressing systemic threats to the functioning of investment markets. This allows us to contribute to controlling such risks before they affect the value of our clients' assets.

GEOGRAPHIC LOCATION OF LISTED EQUITY HOLDINGS



North America	66.7
Developed Europe	17.0
United Kingdom	9.2
Asia (ex Japan)	4.1
Japan	1.2
Other countries	1.8
Total	**100**

Source: CCLA, as at 31 March 2024. Regional weights shown are the percentage of total equity.

ASSETS UNDER MANAGEMENT

Asset class	Percentage of AUM
Equities	49.2
Fixed income	6.5
Private equity and other	2.0
Property	11.5
Infrastructure and operating assets	6.1
Contractual and other income	0.8
Cash	24.0
Total	**100**

Source: CCLA, as at 31 March 2024. Infrastructure and operating assets refer to investments that facilitate the functioning of society with the potential for steady cash flows. Contractual assets refer to investments that generate contracted cash flows over a specific period and are typically secured against assets. Due to rounding, figures may not add to 100.

Activity and outcome

Signatories should explain:

- how they have sought and received clients' views and the reason for their chosen approach
- how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon.

Signatories should also explain:

- how they have taken account of the views of clients and what actions they have taken as a result
- where their managers have not followed their stewardship and investment policies, and the reason for this.

As guardians, and not the owners, of the assets we manage, we recognise that we have a responsibility to: ensure that our clients' portfolios are aligned with their objectives, values and beliefs; to report on the outcomes and impact of all our sustainable investment work; and to be transparent about everything that we do on our clients' behalf.

To ensure that our charity clients' assets are managed in line with their values we undertake a periodic consultation process. The most recent consultation was completed in February 2023 and for the first time included both our charity and church clients. Our aim was to understand any changes in their views on sustainable investment and ensure that our products are aligned with our clients' values.

Between client consultations, we monitor our clients' values-based investment priorities, and our effectiveness in meeting them, in the following ways:

- CCLA's church, charity and local authority funds each benefit from their own oversight boards and committees that meet quarterly to oversee and advise on CCLA's management of the funds.
- The COIF Charities Ethical Investment Fund and the Catholic Investment Fund have client advisory committees. These meet twice per year and cover CCLA's implementation of the 'values-based' investment policies and identify any issues that require attention.
- The CBF Church of England Funds benefit from the work of the Church of England's Ethical Investment Advisory Group (EIAG). This meets regularly to develop values-based investment policies that reflect unitholders' religious beliefs.
- Our relationship management team regularly meets with clients to discuss our service, including our approach to stewardship. Feedback is systematically shared to ensure that any concerns identified by the client are addressed.

In aggregate, these processes enable us to set 'values-based' investment policies for our funds. These are listed in the scheme particulars (or, in the case of segregated clients, their investment management agreement), and coded into our order management system to ensure that they are properly implemented.

The approach is led by our specialist sustainability team. We have not identified any breaches of any of our pooled fund or segregated client policies over the reporting period.

We seek to be transparent about everything that we do and report on the outcomes and impact of our sustainable investment work. We publish our proxy voting records on our website every quarter. We also produce a detailed, but easily accessible, annual Sustainable Investment Outcomes Report. This incorporates fund composition, our stewardship policies and processes and a progress report for all ongoing engagements.

We believe that this approach has been effective in enabling our products and services to continue to meet the needs of our client base.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

Signatories to the Stewardship Code should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

We believe that a combination of legislation, regulation and changing societal preferences can impact negatively on the cash flow of the most unsustainable business models. When considering a potential equity purchase, we seek to identify and 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.

Our approach is designed to help us identify and address any extra-financial risks that may come to harm investment returns in the future.

Prior to purchase, we assess companies' ESG risks in conjunction with their financial position. This assessment is included within analysts' company analysis for every potential equity investment and is a standard component of the overall investment case. It applies to all listed equities, irrespective of their geography or sector, and includes the following.

- 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 of companies' governance structures and how these adapt over the life of the holding.
- Climate change. All assets are managed in line with CCLA's Climate Change and Investment Policy. This requires CCLA to review annually the impact of climate change, and the associated transition to a net-zero economy, on every sector and to stress test carbon intensive businesses' decarbonisation plans against the requirements of the Paris Climate Change Agreement.
- Wider sustainability factors. Potential investee companies are reviewed on their approach to the most financially material sustainability risks relevant to their industry. We use Sustainalytics' ESG risk rating, which is based on widely recognised materiality frameworks, including Sustainability Accounting Standards Board and the Global Reporting Initiative. Any companies considered high-risk require Investment Committee approval.
- Corporate behaviour and standards. Assets are reviewed against any sustainability related controversies that the company has been involved in.

Where we identify material concerns, we conduct a fact-finding meeting with management. Subject to the success, or otherwise, of this meeting companies can be approved for purchase, prioritised for ongoing engagement, or we will decide not to proceed with the investment.

Following purchase, monitoring our investee companies is a routine part of CCLA's investment approach. Our specialist sustainability team continually monitors investee companies' approach to managing ESG risk.

We recognise that not all sustainability issues are financially material within conventional investment time horizons. We expect that regulation, legislation and changing consumer preferences will increasingly embrace the importance of sustainability. Businesses involved in the most unsustainable activities may, over time, be penalised. Consequently, we also assess companies' impact on the real world. This is based on three themes:

- better work – labour standards and human rights
- better health – encouraging high standards of health and wellbeing
- better environment – climate change and the environment.

Taken together, this analysis allows us to identify, and avoid, the most unsustainable businesses and develop appropriate engagement action plans to help the other businesses to move forward.

Our minimum standards for investment, across all funds and segregated portfolios, exclude companies with a predetermined revenue threshold to activities related to climate change, tobacco, cannabis and indiscriminate weaponry (zero tolerance if involved in the production of landmines, cluster munitions, chemical and biological weapons), as well as the sovereign debt issued by countries identified as being among the world's most oppressive.[3]

At the end of the reporting period, the minimum standards set out above resulted in 6.8% of the investment universe excluded from our pool of potential equity investments.

Our ESG analysis does not end once an investment has been made. Companies' ESG characteristics are routinely reviewed to ensure that standards do not slip. For those companies with an engagement action plan, progress is closely monitored. We reconsider investment in companies if they refuse to engage or do not respond adequately to engagement on the most serious issues.

Other asset classes
Recognising their different requirements, we have developed specialist processes for integrating ESG factors into our directly managed money market and property funds.

To facilitate the integration of ESG issues, and to prioritise engagement, we have developed a bespoke assessment framework for counterparties used for our money market funds. As a minimum we consider the following: a counterparty's corporate governance practices, its approach to financing climate change and any controversies with which it has been associated. At the end of the reporting period, this was work in progress and there were no engagements underway with counterparties as a result of the assessment described above.

DIRECT – REAL ESTATE

For our property funds, we seek to integrate sustainability into our asset selection, management and refurbishment processes. There were no new properties purchased during the reporting period. However, we did undertake several significant upgrades to improve the sustainability of properties owned in our portfolio.

One example is the refurbishment of a vacant office floor at 80 Cannon Street, London. We undertook a range of improvements, the most significant of which were to remove all gas-sourced heating from the floor and to replace the lighting with LED fittings. Following the refurbishment programme, the EPC improved from E to B.

Due to the nature of the asset class, we are reliant on our tenants and third-party managing agents to collect and share appropriate data on the performance of our buildings. This has been a substantial barrier to our ability to set targets and monitor progress and has resulted in a relatively low Global Real Estate Sustainability Benchmark (GRESB) score. During the reporting period, EVORA Global Limited was appointed to assist in the further development and implementation of our approach to sustainability in property, including the expansion of asset level action plans and portfolio risk management.

Activity and outcome

Signatories should explain:

- how integration of stewardship and investment has differed for funds, asset classes and geographies
- the processes they have used to:
  - integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries
  - ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues.

Signatories should also explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries.

We implement the same approach to considering extra-financial and other ESG risks across CCLA-managed portfolios, and have developed specialist approaches in other asset classes including property and money market funds.

Our portfolios are managed in line with our Climate Change and Investment Policy, our approach to respecting human rights, and according to detailed guidelines for considering wider sustainability factors which, due to their differing materiality, vary on a sector-by-sector basis. For this reason, CCLA equity portfolios display common characteristics such as low Scope 1 and 2 carbon footprints, better-than-benchmark corporate governance ratings and assessed as 'low risk' by Sustainalytics.[4]

SUSTAINALYTICS ESG PORTFOLIO SCORES

Fund name	Sustainalytics rating	Score
CCLA Better World Global Equity Fund	Low risk	17.8
Catholic Investment Fund	Low risk	18.1
CBF Church of England Investment Fund	Low risk	17.9
COIF Charities Ethical Investment Fund	Low risk	17.8
COIF Charities Investment Fund	Low risk	18.0

Source: Sustainalytics, as at March 2024..

CORPORATE GOVERNANCE RATING

To understand the quality of companies' corporate governance, CCLA has created a corporate governance assessment tool that ranks companies' corporate governance on a scale from A (best) to F (worst). We use this process to identify companies with the highest governance risk; any companies rated E or F are subject to further investigation and investment requires the approval of the Investment Committee. No companies were excluded purely on governance grounds during the reporting period. Our portfolios are biased against companies with low corporate governance ratings, illustrated by the table below, which sets out the composition of the COIF Charities Global Equity Income Fund against our governance ratings compared to the MSCI World Index.

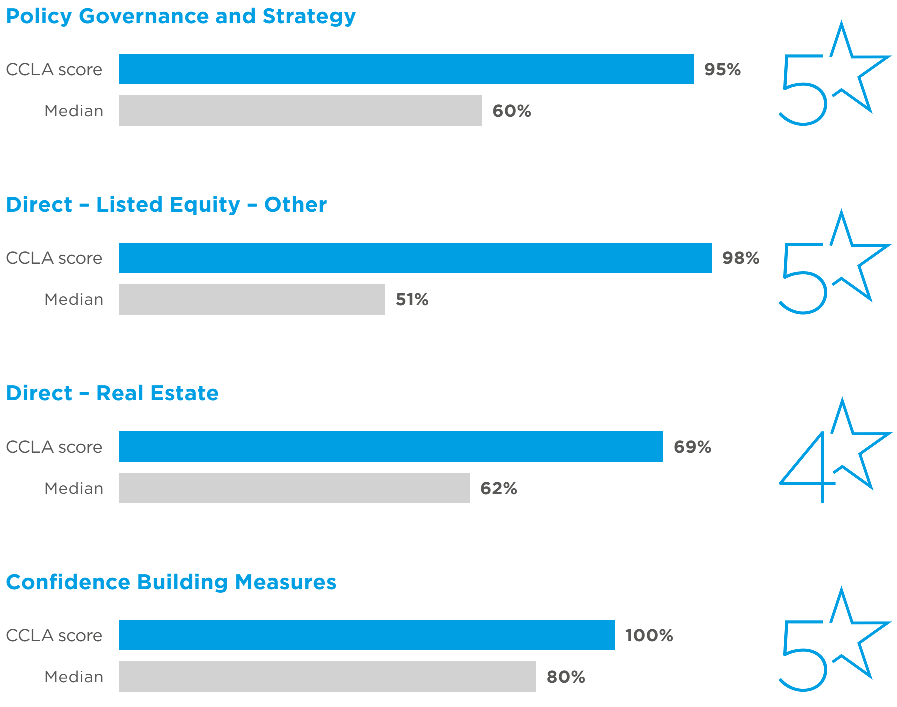
	A	B	C	D	E	F	High risk (E+F)
MSCI World Index	15.8%	24.1%	25.7%	21.1%	9.4%	1.7%	11.0%
COIF Charities Global Equity Fund	14.4%	21.9%	34.3%	21.5%	7.2%	0.7%	7.9%

Source: CCLA, as at 31 March 2024.

PRI EVALUATION

The PRI report evaluates signatories at how they are incorporating ESG factors into investment decisions. CCLA was awarded 5 out of 5 stars for our approach to policy governance and strategy, how we integrate ESG in listed equity and Confidence Building Measures. We were awarded 4 out of 5 stars for how we integrate ESG in property investments.

We disclose our full PRI Assessment Report on our website.



Source: PRI Assessment Report 2023.

In addition to our 'house' approach, most of our clients adopt additional 'values-based' investment requirements. Reflecting the different priorities of our client base these policies vary from fund to fund and are designed to meet the requirements of the underlying client base. For example, we offer four versions of our multi-asset 'Investment Fund' for charities.

These follow the same investment and stewardship approaches (including a commitment to integrating ESG and driving change through active ownership) but implement different values-based investment policies as follows:

- All CBF Church of England funds are managed in line with a faith-consistent investment policy, developed by CCLA, to meet unitholders' desire to invest in a way that reflects Christian and Anglican teachings and is grounded in the advice produced by the Church of England's Ethical Investment Advisory Group.
- The COIF Charities Investment Fund offers a solution to charities that seek a smaller number of 'values-based' constraints. It focuses on restricting investment in a small number of business activities that pose a significant reputational risk to charities.
- The COIF Charities Ethical Investment Fund implements a more wide-ranging set of ethical restrictions to meet the needs of religious and more reputationally exposed charities.
- The Catholic Investment Fund implements a faith-consistent investment policy that is designed to reflect the mission, values and teachings of the Catholic Church.

With the exception of the CBF Church of England funds, which are only open to charities associated with the Church of England, CCLA's charity clients are able to select the fund that they believe best reflects their values-based investment requirements.

The CCLA Better World Global Equity Fund and the CCLA Better World Cautious Fund are available for investment through a variety of investment platforms, independent advisers and intermediaries. These funds are suitable for all types of investors, with basic investment knowledge, seeking to invest in an actively managed fund pursuing the investment objective and policy of the funds. The funds operate a wide range of restrictions and closely follow the investment policy of the CBF Investment Fund.

Due to the high levels of commonality between CCLA portfolios, the vast majority of our engagement activities are conducted on behalf of all of our clients. Responses to engagement are shared with analysts and portfolio managers in our Investment Committee and ESG Forum.

In extremis, poor responses to engagement can, and have, led to divestment or reducing the weight of a holding. There were no examples of divestment due to poor engagement during the reporting period.

We recognise that, as many of our clients are permanently endowed, their long-term investment time horizon includes sustainability risks that are not possible to manage within portfolio construction. For this reason, we prioritise engagement to address long-term, systemic challenges that we believe, if unmanaged, will impact upon the functioning of markets and the value ofour clients' investments.

Our approach to communicating and monitoring service providers is included in our answer to Principle 8.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Activity and outcome

Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.

Signatories should also explain:

- how the services have been delivered to meet their needs

OR

- the action they have taken where signatories' expectations of their managers and/or service providers have not been met.

We conduct most of our engagement work directly and do not use external engagement providers. Our proxy voting activity follows bespoke CCLA guidelines and is administered by ISS.

Where we do not have the expertise to manage certain asset classes in-house (for example, private equity and infrastructure), we may invest in third party-managed funds. In such cases, it is essential that these investments comply with our (and our clients') values-based investment policies.

To ensure compliance, we first seek to enter into a legal agreement with the relevant investment manager precluding investment in restricted entities. If this is not possible, we enter into ongoing dialogue with the manager and conduct a regular review of their exposure to restricted activities. Should the fund's exposure be equal to, or more than, 10% of the fund's overall capital, we do not invest. If we have already invested, we seek to divest. We did not divest from any funds on this basis during the reporting period.

Our full approach to third-party funds is set out in our Values-Based Screening Policy.

CCLA is afforded the right to vote at investee company meetings on behalf of our clients. Due to the specialist knowledge required to lodge appropriate votes, we have employed an external agency to work on our behalf. ISS, our current provider, researches resolutions at company meetings against CCLA's bespoke proxy voting policy. To provide an additional layer of oversight, all resolutions are reviewed by CCLA prior to a vote being filed. While we believe that ISS provides a good level of service, we have identified a small number of instances where our vote guidelines had been incorrectly applied. When this occurs, we inform ISS and seek to work with them to minimise the risk of similar mistakes occurring in the future.

Many institutional investors follow the 'default' voting recommendations set out by ISS, which is informed by an annual survey of investors. We participated in the 2023 survey in September.

We also attended an ISS voting roundtable to discuss what we believe should go into their default recommendations.

We focussed on:

- **Executive remuneration:** rules limiting the level of acceptable executive compensation for UK listed companies are allegedly deterring companies from listing in the UK, and even leading some executives to leave the UK for the US. We do not want to see a relaxing of policies or award levels in the UK, since it will increase inequality within companies and may incentivise short-termism in leadership. We voiced this concern with ISS.

- **Climate change:** we encouraged ISS to consider flagging shareholder proposals that include reference to Climate Action 100+. While we are supportive of corporate greenhouse gas reduction and net zero targets, we want any targets to be realistic, and – importantly – not reliant on carbon offsets or new technologies that are either unproven or not yet commercially available.

Our full approach to voting is set out in our response to Principle 12.

Elsewhere, we use third-party data providers to guide and inform our work. Our sustainability data providers currently include ISS, MSCI, UBS (following its acquisition of Credit Suisse) and Sustainalytics.

We routinely review the data provided to us and engage directly with our providers when we identify errors. In addition, we keep our providers under constant review and formally re-tender for their services regularly.

During the reporting period, we underwent a tender process for our primary ESG data provider. In March 2024, we transitioned from MSCI to Sustainalytics.

Sub-advisement

Federated Hermes Limited is the portfolio manager for CCLA's fixed income funds: the CBF Church of England Fixed Interest Securities Fund and the COIF Charities Fixed Interest Fund.[5]

Client relationship management, oversight and fund administration and the funds' investment exclusions policy remain the responsibility of CCLA.

As part of the mandate, Federated Hermes embeds forward-looking sustainability appraisals into their investment process using its proprietary framework which assesses sustainability and ESG factors of a company, including progress and impact towards decarbonisation, within the investment limitations established by CCLA. A list of restrictions applied to the fixed income funds can be found on the CCLA website.

CCLA meets the team at Federated Hermes formally on a quarterly basis and stewardship is included as a regular agenda item. Topics include individual investments and ESG capacity (covering staffing, systems and data suppliers). In addition to formal quarterly meetings, the sustainability team meets with Federated Hermes to discuss individual stocks. There were no concerns raised in the reporting period.

Engagement

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Activity and outcome

Signatories should explain:

- the expectations they have set for others that engage on their behalf and how

OR

- how they have selected and prioritised engagement (for example, key issues and/or size of holding)
- how they have developed well-informed and precise objectives for engagement with examples
- what methods of engagement and the extent to which they have been used
- the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6; and how engagement has differed for funds, assets or geographies.

We believe that investment markets, and the returns delivered by the assets traded upon them, can only be as healthy as the communities and the environment that support them. For this reason, we believe that delivering long-term investment returns to our clients requires us to push for progress in meeting the world's sustainability challenges. We do this by bringing investors together to address systemic risks that have not had the attention that they require (as explained in our response to Principle 4), using our ownership rights to improve the sustainability of the assets in which we invest and seeking to be a catalyst for positive change in the investment industry.

We seek to engage with every equity holding at least once per year and have targeted engagement plans for assets where we have specific concerns about strategy, capital structure, governance or the potential for negative environmental or social impact. Our approach is consistent across sector and country of listing.

We believe that engagement is most effective when it is conducted in the spirit of constructive partnership between the investor and a company's management team. We seek to support the companies in which we invest on behalf of our clients, while also recognising that our dialogues with companies cannot be open-ended.

Engagement progress is monitored routinely and escalated where progress is considered inadequate. Where companies fail to improve on the most serious concerns, we will divest. During the reporting period, we were not required to divest from any holdings purely on sustainability grounds.

Our focus during the reporting year has been on:

- continuing to encourage businesses to increase the effectiveness of their actions to counter modern slavery
- seeking to encourage businesses to become Living Wage accredited
- incentivising companies to adopt a strategic approach to workplace mental health, through public benchmarking and sustained, collaborative engagement
- playing our role in accelerating the transition to a net-zero emissions economy.

COLLABORATING FOR CHANGE

At the end of 2024, CCLA sustainability initiatives were supported with 112 investors worldwide, with a combined £17.8 trillion in assets under management.

KEY LANDMARKS DURING THE REPORTING YEAR

April 2023

- CCLA's Dame Sara Thornton provided evidence to the Home Affairs Committee arguing for legislation on modern slavery statements; in particular the inclusion of reporting on financial portfolios https://committees.parliament.uk/oralevidence/13010/pdf

May 2023

- Following engagement, Watches of Switzerland indicates that it will seek Living Wage accreditation.
- Amazon resolution on freedom of association and collective bargaining goes to shareholder vote and achieves 34.6% of the overall vote (example of unsuccessful engagement).

June 2023

- The second edition of the CCLA Corporate Mental Health Benchmark – UK 100 is published. 24 companies improved their approach to protecting their employees' mental health over the year. Each company receives bespoke recommendations for the year ahead.

July 2023

- Following collaborative engagement, Nestlé agreed to our disclosure asks and to set targets on sales of healthy foods, to be published in Q4.

October 2023

- The second edition of the CCLA Corporate Mental Health Benchmark – Global 100+ is published. 19 companies improved their approach to protecting their employees' mental health over the year. Each company receives bespoke recommendations for the year ahead.
- Met Nvidia asking them to develop better human rights oversight (customer due diligence), given use of their chips in Russian weapons and concerns about AI and human rights.

November 2023

- CCLA launches AdviserAction, bringing together a group of advisory industry firms into a first-of-its-kind membership organisation, which will engage with listed companies to drive sustainable outcomes.
- Watches of Switzerland shared the news that they have achieved Living Wage accreditation. This follows a similar announcement by Admiral last year.

AWARDS

Investment Week Sustainability Awards

Sustainable Investment Fund Management Group of the Year (under £50bn)
CCLA Investment Management: Winner

Best Sustainable Engagement Initiative
CCLA Corporate Mental Health Benchmarks, UK and Global: Winner

Outstanding Contribution to the Sustainable Investment Industry
Dr James Corah, CCLA Investment Management: Winner

ESG Clarity Awards

Best Social Initiative
CCLA Corporate Mental Health Benchmarks, UK and Global: Winner

Financial News Excellence in Institutional Fund Management Awards

ESG Initiative of the Year
CCLA, for its Corporate Mental Health Benchmarks, UK and Global: Winner

Portfolio Adviser Wealth Partnership Awards

ESG Advocate (Asset Manager)
CCLA: Winner

Make a Difference Awards

Game-changing initiative of the year
CCLA for the Corporate Mental Health Benchmark: Winner

In total, across all our engagement programmes, including those conducted by us for CCLA, our collaborative engagement partners, or the Church Investors Group we have engaged with 308 companies over the reporting period. Consistent with our approach that we wish to influence the wider market, not just our portfolio holdings, 176 of the companies engaged with were not CCLA equity holdings. These figures do not include communication around proxy voting activity.

Our approach includes direct and collaborative engagement with issuers:

- Routine proxy voting, with all holdings. Voting is conducted in line with our proxy voting policy and reflects our wider stewardship priorities. To increase the impact of our votes we write to the company to inform them of our vote instructions. For a small number of very low risk businesses, this is our only formal engagement contact during the year.
- Remote dialogue with companies, we believe in the power of ongoing dialogue with businesses. For this reason, we have ongoing remote engagement that is conducted via letter, email and phone calls, with specialists in the companies in which we invest.
- In-person meetings with management and board members and site visits.
- Shareholder resolutions and attending AGMs. Where required, we will escalate our engagement by attending AGMs to ask questions of management in public and/or filing shareholder resolutions.

SUCCESSFUL ENGAGEMENT: LIVING WAGE

Background
In early 2023 we commenced engagement with four UK-listed companies that we invest in with the aim of persuading them to become Living Wage accredited. We chose companies in sectors where there is a high proportion of low paid workers, namely hospitality and retail, as well as businesses with large UK call centres.

Since our engagement began, Admiral Group has become an accredited Living Wage employer. In Q1 2024, Watches of Switzerland shared the good news that it has also now achieved Living Wage accreditation.

SUCCESSFUL ENGAGEMENT: MENTAL HEALTH

Background
Mastercard has engaged with us on the topic of workplace mental health since 2022 and we had three meetings with the company in 2023. Company representatives said that mental health is a priority for the business and that the CCLA Corporate Mental Health Benchmark had been helpful in guiding their efforts. The company shared the news that they had rolled out a mental health champions programme and that it had received 10-fold the expected uptake.

As a result, the company increased its score in the benchmark by 28% year-on-year and moved from tier 4 in 2022 to tier 3 in 2023. The company told us that it is striving for tier 1, and we look forward to guiding and monitoring its progress.

We seek to use the best possible 'tool' for achieving the desired outcome and often use a variety of these techniques at any one point.

In addition, we seek to act as effective stewards of the other asset classes under our care. In property, we encourage our third-party managing agent to develop action plans for reducing the environmental and social footprints of our key assets. As money market funds make up a significant portion of our assets under management, we have developed an approach to assessing and engaging with our counterparties. This approach has been enhanced in 2023/24.

Our engagement approach is subject to strict governance and continual improvement – which is overseen by the Investment Committee – and we seek to report annually on the progress of engagements.

Further details of our approach to engagement are available in our Engagement Policy.

A full review of our engagement activities, including assessment of progress, is included in our annual Sustainable Investment Outcomes Report.

UNSUCCESSFUL ENGAGEMENT: AMAZON AND WORKERS' RIGHTS

Background
Amazon has faced criticism relating to working conditions and their respect for trade union rights.

The topic grew in prominence over the course of 2022, after Amazon workers at a large fulfilment centre on Staten Island made history by voting to form the first Amazon Union. Since then, the Union has faced widespread and well-publicised opposition and anti-union interference from the company. An alleged $14 million was spent by Amazon on efforts to quash union drives at the company, including $4 million spent on anti-union consultants, brought in to dissuade people from joining the Union.

Engaging with Amazon
As shareholders, we believe that Amazon itself has much to gain from supporting its workers' efforts to organise. Evidence suggests that trade unions can result in higher corporate productivity, lower staff turnover, a better health and safety record, and greater innovation.

Towards the end of 2022, we co-signed a letter to Amazon, calling for the board of directors to commission an independent, third-party assessment of Amazon's adherence to its stated commitment to workers' freedom of association and collective bargaining rights as outlined in its Global Human Rights Principles. Six weeks later, having received no meaningful response, we escalated the engagement by co-filing a shareholder resolution at the company for its 2023 annual general meeting.

The proposal went to vote on 24 May 2023. Our resolution achieved 34.6% of the overall vote and 41.8% of independent shareholders' vote. However, we are yet to see progress from the company in delivering any of the requested changes.

For the remainder of the year, we continued to build support for this campaign, speaking to other investors, Amazon workers, and the GMB Union. 2024 was the second year in a row that CCLA, alongside a growing coalition of international investors, filed a resolution at the company's May AGM asking for an independent report on its approach to trade unions and whether its practices were aligned with its own policies and international human rights standards.

While out of scope of this reporting period, the proposal went to vote in May 2024 and achieved 31.8% of the overall vote (37% of independent shareholders' vote), slightly down on 2023. Of the 14 shareholder proposals, our proposal received the most support, followed by a proposal asking for a report on warehouse working conditions, which received 31%.

Next steps
We are reformulating the engagement process and considering other avenues to seek to achieve progress on this important issue.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity and outcome

Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.

Signatories should also describe the outcomes of collaborative engagement.

We believe in the power of investor collaboration. CCLA has a long-track record of driving positive change through our active ownership practices. However, we recognise that by working collaboratively with other investors we can have a much bigger impact. For this reason, we support several third-party run engagement coalitions and also build and coordinate our own where we see opportunities for collective action.

This ranges from Climate Action 100+, that is backed by over $68 trillion of assets, to ShareAction's Long Term Investors in People's Health, to the £25 billion Church Investors Group. It also includes sector-specific working groups, such as the Platform for Living Wage Financials.

We seek to take a leading role in all of the collaborative engagements in which we participate and only work with investors who we believe share our ethos of the need for engagement to deliver change. The success, or otherwise, of collaborative engagements is assessed by our Investment Committee.

Where we can, we aim to act as a catalyst for investor action on underserved issues. Where we see an opportunity, we seek to create our own collaborative engagement initiatives.

One example is the Find It, Fix It, Prevent It initiative, that was launched by CCLA in 2019. The collaborative engagement aims to increase the effectiveness of corporate actions on modern slavery through: direct engagement with UK-listed companies in the hospitality and construction industries, public policy engagement and the provision of data and resources. To aid engagement, we created a detailed Engagement Expectations document that sets out the clear aims and objectives of a 'Find it, Fix it, Prevent it' style engagement. At the end of the reporting year the initiative was supported by investors with combined assets of over £15 trillion.

Another example is the Global Investor Coalition on Workplace Mental Health, which supports our engagement around the CCLA Corporate Mental Health Benchmark. At the end of the reporting period, this had grown to 55 investors, with a combined £7.5 trillion in assets under management.

At the end of the reporting period, CCLA-led initiatives were supported by 112 investors worldwide, with a combined £17.8 trillion in assets under management.

Finally, we recognise the importance of industry partnership and seek to take an active role in the life of the City of London. Key CCLA staff members participate in working groups or committees in a variety of different organisations including, but not limited to, the Investment Association and the Principles for Responsible Investment.

MENTAL HEATLH ENGAGEMENT OUTCOMES

Background
The CCLA Corporate Mental Health Benchmark, launched in 2022, aims to inform and accelerate progress in the area of workplace mental health.

The benchmark evaluates more than 200 listed companies, annually, and ranks them into five performance tiers. Performance is assessed against a set of 27 assessment criteria that had been developed by mapping existing frameworks and reference sources, and with the support of an independent expert advisory panel.

To raise the profile of the benchmark, and to incentivise businesses to implement the framework, we spent two years building a global investor coalition on workplace mental health. Launched in July 2022 with just 29 founding signatories, at the end of the reporting period, the coalition had grown to 55 investor signatories with a combined £7.5 trillion in assets under management.

We acknowledge that benchmarking is a long game and, at approaching three years old, this benchmark is at a formative stage. Nonetheless, it appears to be doing its job in driving corporate performance on workplace mental health at a systemic level. It has mobilised the investment community into action, it has incentivised many businesses to improve, and the ability to assess and compare companies on their approach enables investors to track corporate progress over time.

The benchmark aims to improve the approach of more than 200 of the world's largest listed businesses. The companies covered in 2023 span 10 industry sectors, 17 countries of domicile and employ between them 24 million people worldwide.

Outcomes
In 2023, we assessed 207 listed companies on their approach to workplace mental health, across two benchmarks: the 'UK 100' and the 'Global 100+'. 119 of those had engaged directly with CCLA between the launch of the 2022 and 2023 benchmarks. 42 companies demonstrated improvement sufficient to result in a move up by one or more performance tiers. Those 'improver' companies have a combined workforce of 7 million people worldwide.

The 42 'improver' companies are listed below*:

Amazon
Ashtead Group
Bristol-Myers Squibb Co
China Construction Bank Corp
CRH
Diageo
DS Smith
Dunelm Group
Entain
Experian
Glencore
Hermès International
HSBC Holdings
IMI PLC
Johnson Matthey
JPMorgan Chase & Co
Kingfisher
LVMH Moet Hennessy Louis Vuitton
Mastercard
Meituan
Mondi
Morgan Stanley
NatWest Group
Nike
Novartis
Novo Nordisk
Rentokil Initial
Rio Tinto
Roche Holding
Shell
SSE
SSP Group
Thermo Fisher Scientific
Toronto-Dominion Bank
TotalEnergies
Toyota Motor Corp
TUI
Unilever
Walmart
Weir Group
Whitbread
WPP

We are committed to supporting businesses in their efforts to make mental health an intrinsic part of their management focus. Companies that can capitalise on this opportunity stand to benefit themselves, their employees and the communities in which they operate. Assessments will take place annually and we will report on further progress in future.

**Please note, not all of these companies are owned in CCLA portfolios.*

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity and outcome

Signatories should explain:

- how they have selected and prioritised issues, and developed well informed objectives for escalation
- when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples
- how escalation has differed for funds, assets or geographies.

Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.

As outlined in our response to Principle 9, we seek to engage with every equity holding at least once per year and have targeted engagement plans for any asset where we have specific concerns about strategy, capital structure, governance or the potential for negative environmental or social impact.

While we seek to support the companies in which we invest on behalf of our clients, we recognise that our dialogues with companies cannot be open-ended. Engagement progress is monitored routinely and, if not sufficient, can lead to an escalation in our concern and eventually lead to divestment. We grade our equity engagements according to the severity of the problem (low, moderate, high), which influences the intensity of the engagement. Intensity of engagements range from 1 (light touch) to 3 (high intensity engagement, significant time or resource required). For the most severe cases, we will divest if no progress is made within a limited time period. There were no divestments made on these grounds during the reporting period. Severity and intensity levels are agreed by our sustainability specialists and approved by the Investment Committee.

Should we have concerns about the progress of an engagement, 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. The last time this occurred was with Tencent in 2021. As a result of the heightened risk of regulatory scrutiny of the company by the Chinese government and a lack of visibility over what they were likely to do next, we felt unable to maintain a position in the company. The company also ranked poorly on our internal corporate governance metrics. We exited the position across all accounts in July 2021.

Engagement escalation is formally built into our approach to assessing companies' corporate governance and can affect the grade awarded to a specific business. Should a company's rating fall significantly, this can instigate a reassessment of the investment case and trigger a divestment process. There were no such examples during the reporting period.

This process is adopted irrespective of the sector and/or geography of the company in consideration.

Exercising rights and responsibilities

Principle 12

Signatories actively exercise their rights and responsibilities.

Context

Signatories should:

- explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies.

In addition, for listed equity assets, signatories should:

- disclose their voting policy, including any house policies and the extent to which funds set their own policies
- state the extent to which they use default recommendations of proxy advisors
- report the extent to which clients may override a house policy
- disclose their policy on allowing clients to direct voting in segregated and pooled accounts
- state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'.

We recognise the power of proxy voting and seek to exercise our clients' voting rights at all investee companies, irrespective of their country of listing, and, to increase our impact, seek to vote all portfolios and mandates in the same manner. So that we can retain our right to vote we do not lend our securities.

Our voting seeks to promote best practice corporate governance, further our wider active ownership priorities and to reflect our clients' values. For this reason, we regularly (defined as more frequently than our data provider's standard approach) vote against management on issues such as executive remuneration, board composition (including gender diversity and where we have concerns regarding a director's performance on a particular issue such as climate risk management), the independence of auditors and the Annual Report and Accounts if we feel that the ESG disclosures made by a company are inadequate. Our voting policy is available on our website. We aim to increase our impact by advising companies of the reasons for our approach ahead of the meeting.

To benefit from their extensive data, our voting is administered by a third-party partner (currently ISS) who works to a bespoke proxy voting policy. We review all voting recommendations made to us prior to submitting our voting intention. We also regularly review data provided by ISS to check that we are using all of our possible voting positions.

While we integrate our clients' sustainability preferences within our voting guidelines, we recognise that from time-to-time some clients will wish to vote in a different way to our 'house position'. For this reason, in segregated accounts we directly implement any voting instructions that we have been given and seek to deliver 'split voting' in our pooled funds on a best endeavours basis. During the reporting year we have not received any client requests to vote in a different way from our standard policy.

Since we are global investors, we seek to exercise our ownership rights at investee companies irrespective of the geography of their listing. However, recognising different regulations and norms, for some resolutions, our voting policy allows for companies to be considered against home market standards. An example relates to executive pay resolutions where company proposals are judged against 'home market standards' in addition to our wider criterion.

Activity and outcome

For listed equity assets, signatories should:

- disclose the proportion of shares that were voted in the past year and why
- provide a link to their voting records, including votes withheld if applicable
- explain their rationale for some or all voting decisions, particularly where:
  - there was a vote against the board
  - there were votes against shareholder resolutions
  - a vote was withheld
  - the vote was not in line with voting policy.
- explain the extent to which voting decisions were executed by another entity, and how they have monitored any voting on their behalf
- explain how they have monitored what shares and voting rights they have.

For fixed income assets, signatories should explain their approach to:

- seeking amendments to terms and conditions in indentures or contracts
- seeking access to information provided in trust deeds
- impairment rights
- reviewing prospectus and transaction documents.

For listed equity assets, signatories should also provide examples of the outcomes of resolutions they have voted on over the past 12 months.

We seek to exercise our clients' voting rights at every investee holding. During the reporting year we voted on 3,003 resolutions at 186 meetings held by 176 companies. We were unable to vote at a small number of company meetings due to a variety of factors. These included purchasing new companies or additional shareholdings after the ballot cut off period and the requirement in a small number of markets for us to establish Power of Attorney arrangements which, due to our small shareholdings, would not be cost effective for our clients.

Voting on management proposals

	CCLA	ISS*
All resolutions		
With management	82%	96%
Against manager	18%	4%
Director election		
With management	79%	97%
Against manager	21%	3%
Executive remuneration (reports and policy)		
With management	31%	88%
Against manager	69%	12%

Source: CCLA, as at 31 March 2024. *Not including resolutions that ISS 'refer' to the client for decision.

We seek to be transparent about all of our voting activity and publish our vote outcomes quarterly on our website.

The reports provide a full overview of our rationale for any votes against policy, all votes against management and all shareholder resolutions.

During the year we did not support 18% of resolutions proposed by management. By way of comparison, should we have followed our outsourced provider's, ISS, default voting policy we would have not supported 4% of resolutions. This difference highlights our willingness to vote against management on issues that we believe require improvement. The most common reasons for us not supporting management include:

CONFIDENCE BUILDING MEASURES

Inappropriate, excessive or poorly aligned remuneration
During the reporting period we did not support 69% (ISS 12%) of companies' proposed remuneration policy or report.

The three most common reasons for us not supporting a remuneration resolution were:

1. Concerns about the construction of the annual bonus element. We believe that poorly constructed annual bonuses can disincentivise the delivery of strong long-term performance.
2. The overall quantum of the award to executives. This reflects our systemic concern about inequality.
3. The lack of ESG criteria within awards, as we believe that these incentivise directors to think about the wider environmental and/or social impact of their business.

Not supporting the election of directors
We vote against the re-election of directors to boards where we have concerns about the overall structure of the board and/or to hold directors accountable for the decisions of their committees. During the year we did not support 21% (ISS 3%) of director election resolutions. The most common reasons for not supporting the election of a director were:

1. Poor levels of gender or ethnic diversity at either board level or within senior management. For this we hold the chair of the nomination committee accountable.
2. The performance of the remuneration committee – where we have specific concerns about a proposed executive remuneration award or policy we do not support the re-election of the chair or, depending upon the severity of our concerns, all members of the committee.
3. Board governance – this reflects our desire for boards to provide a strong level of independent oversight and includes, but is not limited to, concerns regarding the combination of the roles of CEO and chair, and underrepresentation of genuinely independent directors.

Supporting shareholder resolutions.
We seek to reflect our wider stewardship priorities when considering resolutions filed by other investors. For this reason, we supported 102 of 136 shareholder resolutions in the reporting year.

One example of a shareholder resolution that we did not support was filed at the Costco Corporation. The resolution requested the company issue an audited report on the fiduciary relevance of decarbonisation goals, with the aim of removing the company's support for such goals. We did not support this resolution as it directly contradicted our other stewardship activities on climate change including the setting of greenhouse gas reduction targets.

Our voting was administered by our third-party provider in line with our bespoke voting guidelines. We reviewed 100% of ballots prior to them being submitted and informed every company in advance of the meeting if we intended to not support them on any resolution. This allowed us to enter into engagement prior to the meeting and to fact check our data provider's research.

During the reporting year CCLA did not exercise voting rights over any fixed income holding nor did we seek any amendments to the terms and conditions offered by indentures or contracts. This activity is fully sub-assigned to Federated Hermes Limited, the portfolio manager for CCLA's fixed income funds, and represents a small percentage of our assets under management.

VOTING ON SHAREHOLDER PROPOSALS

We are committed to supporting shareholder resolutions that positively address environmental, social and governance concerns and disclose our voting position and rationale quarterly on our website. We integrate our wider stewardship priorities into our voting practice as follows:

Better environment
We supported resolutions in two areas seeking alignment between company activities and their own stated decarbonization targets. Many companies are members of industry bodies and associations that conduct lobbying on their behalf, often with very little transparency. In some cases, this has been shown to be supporting positions counter to stated climate targets.

We voted in favour of resolutions at 14 companies (including Coca-Cola, McDonald's, Microsoft, PepsiCo, Verizon and Walt Disney) seeking better transparency to ensure congruence with previously set climate targets. We also encouraged three companies, Amazon, Intuit and Microsoft, to do more to align the investments held within their staff retirement plans with the companies' stated position on climate.

Better health
We supported resolutions that sought increased reporting and discussion about practices on patent exclusivities at three pharmaceutical companies (Johnson & Johnson, Merck and Pfizer). Secondary and tertiary patents can extend a company's ability to exclusively sell drugs and reduce competition from non-branded generic versions. However, increased use of such practices and above-inflation price rises have produced possible regulatory risks around drug pricing. We support greater transparency in this area to facilitate improved access to medicines.

At the McDonald's Corporation AGM, two resolutions we supported related to the overuse of antibiotics in the rearing of animals by meat producers. This practice has been shown to exacerbate antimicrobial resistance, which has significant potential ramifications for global public health. The resolutions referenced previous targets, since dropped, that McDonald's had set to reduce the use of antibiotics in its meat supply chain.

Better work
Both Amazon and Starbucks have been accused of efforts to dissuade workers from unionising. In the case of Amazon, while the company has policies in place that support workers' rights to collective bargaining, the allegations levelled warranted further transparency around the company's actions and how associated risks are being managed. Accordingly, we co-filed a resolution on this topic, covered in detail on page 31 of this report.

Endnotes

1 Deloitte (2022) 'Mental health and employers: the case for investment – pandemic and beyond', online at https://www.deloitte.com/content/dam/assets-zone2/uk/en/docs/services/consulting/2023/deloitte-uk-mental-health-report-2022.pdf

2 'Mental health matters' (2020), The Lancet Global Health, 8(11), online at https://pmc.ncbi.nlm.nih.gov/articles/PMC7561290

3 Source: CCLA. The majority of ethical restrictions are applied through standard and bespoke data feeds provided by Sustainalytics. Corruption Perception Index from Transparency International, the Freedom in the World 2019 from the Freedom House, the Stockholm International Peace Research Institute for data on UN and EU embargoes, and the US Commission on International Religious Freedom.

4 Sustainalytics' ESG Risk Ratings measure the degree to which a company's economic value (enterprise value) is at risk driven by ESG factors. The ESG Risk Ratings assess the magnitude of a company's unmanaged ESG risks. For each company, unmanaged risk is measured by evaluating a set of material ESG issues based on both the company's exposure to and management of those issues. The resulting unmanaged risk for each issue is then summed up to provide one score that represents the company's overall ESG risk.

5 CCLA fixed interest investment policy, online at www.ccla.co.uk/about-us/policies-and-reports/policies/fixed-interest-investments-policy

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Important information

WANT TO KNOW MORE?

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CCLA

BECAUSE GOOD IS BETTER