

A climate for Good Investment



CCLA
GOOD INVESTMENT

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CCLA supports Koestler Arts

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

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

koestlerarts.org.uk

Introduction

The most recent United Nations Climate Change Conference (COP28)ⁱ didn't turn the page on the fossil fuel era, however global cooperation remains our best hope to tackle global challenges.

At CCLA we firmly believe in the power of collaboration to drive change. When we sing from one hymn-sheet, asset managers, asset owners and civil society can be a powerful consortium in driving the world forwards. This is particularly important now, as we transition from pushing companies to disclose their negative climate impacts to actually trying to reduce them.

International investor cooperation on climate change is now well established since we started 'Aiming for A' over 10 years ago. The most visionary players in the investment industry adapted and joined efforts to tackle corporate emissions and have built now well-established global investor coalitions and working groups aimed at high emitting sectors.

In the face of the recent ESG backlash and growing regulation however, we are unfortunately seeing a number of our peers decrease the emphasis that they are placing upon sustainable investment as a whole. Yet, public awareness of climate change has never been so high.

As the consequences of failing to tackle these systemic issues become increasingly apparent, building the right incentive structures for companies to want to improve is becoming more and more urgent.

Action is central to our Good Investment principlesⁱⁱ. CCLA is and will be continuing to push for real-world emissions reductions.

Peter Hugh Smith
Chief Executive, CCLA

i The 2023 United Nations Climate Change Conference (UNCCC) or Conference of the Parties of the UNFCCC, more commonly known as COP28, was the 28th United Nations Climate Change conference, held from 30 November to 13 December at Expo City, Dubai, United Arab Emirates.

ii See www.ccla.co.uk/about-us/our-philosophy

About this report

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

This report aims to provide stakeholders with a comprehensive understanding of the impact of climate change on CCLA.

The report covers the period between 1 April 2023 and 31 March 2024. The report covers CCLA Investment Management but also CCLA Fund Managers as a wholly owned subsidiary of CCLA Investment Management.

The structure of the report covers governance, strategy, risk management and metrics and targets in line with the recommendations of the Taskforce for Climate related Financial Disclosures (TCFD).

1. **Governance:** We describe the organisation's governance around climate-related risks and opportunities, highlighting the boards' and management's role in assessing and managing climate-related risks and opportunities.
2. **Strategy:** We present our strategic sustainability framework, the risks and opportunities associated with climate change. By incorporating scenario analysis and stress testing methodologies, we evaluate potential financial impacts.

3. **Risk management:** We discuss our approach to identifying, assessing, and managing climate-related risks, both physical and transitional.
4. **Metrics and targets:** In this section, we outline the key metrics used to assess and track our progress in managing climate-related risks and opportunities. We provide quantitative data and qualitative insights on the companies we invest in and operational emissions and targets.

While we endeavour to use words/explain terminology so that it will be understood, there may be terminology in the report that you are unfamiliar with. Should there be terms you are unfamiliar with please, in the first instance, refer to our glossary document on our website: www.ccla.co.uk/glossary

Compliance statement

The disclosures in the report, including any third party or group disclosures cross-referenced in it, comply with the requirements under the FCA ESG Sourcebook Section 2: Disclosure of climate-related financial information.



Dr James Corah
Head of Sustainability, CCLA

About CCLA

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

With the introduction of financial services regulation in 1987, Churches, Charities and Local Authorities (CCLA) Investment Management Limited was formed.

CCLA is in the unique position of being primarily owned by our three main client groups – churches, charities and local authorities. We are the spirit of a mutual in the body of a commercial private limited company.

One representative director from each group is a CCLA Investment Management Limited non-executive director and we report on company performance each quarter to the trustees of these three groups. Our ownership structure reflects our history and our client base.

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

CCLA has committed to seek to achieve net-zero emissions for our listed equity investments under management no later than 2050. This currently represents 48.94% of our assets under management.

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

Key changes during the year

As stewards of our clients' investments, we believe it is crucial 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 are committed to accelerating the transition to a decarbonised economy.

Over the past year we have continued to deliver our engagement strategy on the topic of climate change and nature.

We are continuing to prioritise public policy and shaping regulation. Since 2018, we have been actively participating in the UK and Canadian Governments' Powering Past Coal Alliance, 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 and we submitted a response to a Department for Transport consultation on transport infrastructure development, emphasising the sector's significant contribution to greenhouse gas emissions.

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+; where we are aiming for our top 30 emitters to achieve an A grade on the [Carbon Disclosure Project \(CDP\)](#) assessment and keep 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.

A new addition to our Better Environment engagement programme has been our support for and/or involvement in initiatives like 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.

Tessa Younger

Better Environment Lead

Climate change and investment policy

As a founding member of the Net Zero Asset Managers initiative¹, CCLA has committed to managing our listed equity investmentsⁱⁱⁱ 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*.² These targets will be revised every five years, with the next review being due in 2026.

We will do this through our Good Investment principles: Act, Assess and Align.



Act

Acting to increase the pace of climate action.

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

For this reason, we commit to the following:

- Leading impactful engagements, both directly and in collaboration with other investors, with prioritised listed equity holdings on climate change. As a minimum, this will include the 30 listed equity holdings in which CCLA invests that have the highest greenhouse gas emissions across Scopes 1, 2 and 3.
- Incorporating climate risk into our voting activity. Our specific requirements of companies will be disclosed annually in our [voting guidelines](#).
- Working with policymakers to push for progressive regulation and legislation and encouraging any industry organisations, that CCLA is a member of, to promote climate action in line with the requirements of the Paris Climate Change Agreement³.

DEFINITION: SCOPES 1, 2 AND 3

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

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

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

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

ⁱⁱⁱ Listed equities are share or stock holdings in companies that are tradeable on public markets. In this report, when referring to listed equities we exclude listed collective vehicles, such as investment trusts, whose primary business is to invest in other companies to generate a profit, and only refer to individual companies, whose primary business is to provide a service or sell a product to generate a profit.



Assess

We seek to include the risks and opportunities associated with climate change in our listed equity investment process.

This includes targeted, company-wide, restrictions from investment and assessing, eligible, high carbon sector companies' position against the energy transition as part of our listed equity investment process (with the exception of collective vehicles).

We recognise that high carbon assets as well as those based on fossil fuels, face increased financial risks during the inevitable energy transition.

For this reason, we commit to the following:

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

- Assessing the most exposed companies' position against the Paris Climate Change Agreement. Recognising the potential for regulation, legislation and changing consumer preferences to impact upon future profitability, we assess the decarbonisation plans of those companies that are in carbon-intensive sectors prior to purchase. On the back of this analysis we:
 - require the approval of CCLA's Investment Committee prior to investing in companies in the electrical utility sector that are not assessed as being aligned with the nationally determined contributions (NDCs)
 - include concerns about climate financing in our annual assessment of the counterparties used by our money market funds.

DEFINITION: NATIONALLY DETERMINED CONTRIBUTION (NDC)

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



Align

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

To achieve this we:

- Tailor our investment solutions to meet our clients' climate change priorities as discerned through our regular client consultation process
- Commit to reporting annually through our TCFD report (A Climate for Good Investment) on how we have discharged this policy, including information and analytics on our funds' transition to net-zero emissions, and details of our management of the opportunities and risks associated with climate change.

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

Accountability

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

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

Governance

Board and management oversight of climate-related risks and opportunities

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

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

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

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

For CCLA's own internal operational emissions, CCLA has implemented an environmental management system (EMS) in line with the requirements of the internationally recognised voluntary standard ISO 14001:2015 to effectively manage these impacts and to show continuing commitment to the protection of the environment. The EMS is managed by CCLA's **Environmental Management Committee** which is chaired by CCLA IM's **Chief Executive Officer**. Progress is reported annually to the board of CCLA IM and FM.

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

Policy and corporate engagement

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

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

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

Exclusions

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

For this reason, we will continue to avoid investing in companies which we consider have uncompensated, unwanted, unwarranted and unmitigated environmental risks – those that are the most damaging to the environment (see our [exclusions](#)). For other companies, such as those in the electrical power generation business, we will assess their alignment with the goals of the Paris Climate Change Agreement before investing in them.

The risks associated with this approach are that we are limited in the use of our influence to engage with the companies in which we don't invest. When these industries experience above-average returns our clients will not be able to profit from capital growth in these sectors.

Investing for change

The compounding effect of a changing climate is currently being felt, intensifying humanitarian challenges such as food insecurity. According to the World Economic Forum's 2024 risk report, 'extreme weather events' is ranked as one of the most severe short-term and long-term risks.⁴

In our multi-asset funds, we allocate some capital to assets that have a beneficial climate impact, where such investment opportunities arise. Purchasing assets that already exist on the secondary market, such as on a stock exchange – that facilitates the buying and selling of investments between two or more investors – has little positive real-world impact. Where the opportunity arises, we seek to invest in assets beneficial to the climate on the primary market, which is where the proceeds of the transaction go directly to the company. An example of a primary market transaction would be an Initial Public Offering. One example is the [Clean Growth Fund](#) for which we provided seed capital.

The largest businesses in the developed markets comprise the MSCI World Index, but according to data from MSCI, only 69 of 1,466 constituents have potentially achievable 2030 net-zero targets^{iv}. Several of these 69 companies are held by CCLA, but limiting our investment universe to these businesses (as would

be required should we aim for 2030 net-zero equity portfolios) would ultimately constrain our ability to build diversified funds and, from a sustainability perspective, would limit our ability to engage with those companies that most need investor support to improve their credentials.

COLLABORATING FOR A CLIMATE FOR GOOD INVESTMENT

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

- Net Zero Asset Managers initiative (NZAM)
- Carbon Disclosure Project (CDP)
- Nature Action 100+
- Net Zero Engagement Initiative (NZEI)
- Spring by UN PRI
- Climate Action 100+
- Institutional Investors Group on Climate Change (IIGCC)
- Powering Past Coal Alliance
- Ceres
- Interfaith Centre for Corporate Responsibility (ICCR)

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

Risks

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

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

Opportunities

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

^{iv} Defined as reaching -95% or higher reductions in aggregate Scope 1, Scope 2 reported or estimated absolute emissions and -67% of Scope 3 estimated absolute emissions by 2030 or sooner. This definition is consistent with the Science Based Targets initiative (SBTi) criteria for net-zero targets. The assessment is carried out as follows by MSCI: the value of the target-based emissions trajectory in 2030 is compared to the value of the latest available reported or estimated emissions. This is a calculated, target summary-level datapoint.

The OECD estimates that over \$6.9 trillion in investment is needed in order to move the world towards net-zero emissions⁵. While this is not our funds' focus, in our alternative assets^v we have exposure to funds that support the transition to a low-carbon economy, for example by expanding solar, hydro and wind electricity generation capacity in Europe and further afield.

As of 31 March 2024, the market value of our investments in climate positive solutions in our alternative assets was £368 million (approximately 2.3% of our total AUM).

Transition planning

Effective transition finance is dependent on credible transition plans. In November 2023 the UK Transition Plan Taskforce (TPT) published the TPT Asset Manager Sector Guidance for consultation. Once final sector guidance has been published, we will work towards creating a transition plan to follow this guidance.

Strategic resilience and climate scenario analysis

Strategic resilience

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

1. Our exposure is largely through financial assets, many of which are listed, so we have significant flexibility to adapt by selling, especially if active engagement should fail.

2. Our equity assets are managed to meet low-carbon footprints, measured relative to the MSCI World Index, which we use as a benchmark and a proxy for the world economy. Our exposure to businesses in high-carbon emitting sectors is limited (see our [exclusions](#)).
3. Some of our alternative assets directly support the economic transition, such as wind and solar farms, and energy storage.
4. We will continue to carefully manage our exposure to high-emitting businesses and sectors. We continuously analyse our carbon exposure, and where appropriate, seek out opportunities to improve our holdings through corporate engagement or indirectly through public policy engagement.
5. Our portfolio of assets invested in our funds is well diversified across different sectors of the economy.

DEFINITION: TRANSITION RISKS

Transition risks are business-related risks that follow societal and economic shifts toward a low-carbon and more climate-friendly future.

DEFINITION: PHYSICAL RISKS

Physical risks resulting from climate change can be acute (driven by an event such as a flood or storm) or chronic (arising from longer-term shifts in climate patterns).

^v Our alternative investments includes infrastructure assets (general infrastructure, energy-related infrastructure and social infrastructure); contractual income assets (which receive contracted cash flows over a specific period and are typically secured against assets, for example, loans and mortgages); real estate investment trusts; and private equity assets.

Climate scenario analysis

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

We explore three scenarios⁶ of an increasing mean temperature above pre-industrial levels.

1. A 1.5 degrees Celsius scenario where the world transitions in an orderly way to a low-carbon economy. This scenario assumes climate policies are introduced early and become gradually more stringent over time.
2. A 2 degrees Celsius scenario with a disorderly transition. In this scenario the introduction of policies is being delayed or inconsistent across different countries and sectors.
3. Finally, a 3 degrees Celsius scenario where we assume a late transition to a low-carbon economy. This is also referred to as 'hot house world'.

All three scenarios assume that society evolves broadly in line with past trends. This is technically referred to as Socio-Economic Pathway 2.

The output of our scenario analysis is twofold.

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

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

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

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

We have modelled this on CCLA's listed equity investments and compared it with MSCI World to provide context.

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

Climate scenario analysis

Climate data point (MSCI)	Unit	CCLA listed equities	MSCI World
Orderly	Policy climate VaR	-2.43%	-16.72%
	Technology opportunities climate VaR	0.22%	2.37%
	Physical climate VaR	-4.01%	-12.21%
	Aggregated climate VaR	-6.22%	-26.56%
Disorderly	Policy climate VaR	-1.51%	-12.27%
	Technology opportunities climate VaR	0.10%	1.26%
	Physical climate VaR	-4.01%	-12.93%
	Aggregated climate VaR	-5.42%	-23.94%
Hot house world	Policy climate VaR	-0.31%	-3.83%
	Technology opportunities climate VaR	0.05%	0.55%
	Physical climate VaR	-4.98%	-15.27%
	Aggregated Climate VaR	-5.24%	-18.55%
Implied temperature rise in degrees Celsius		2.01	2.43

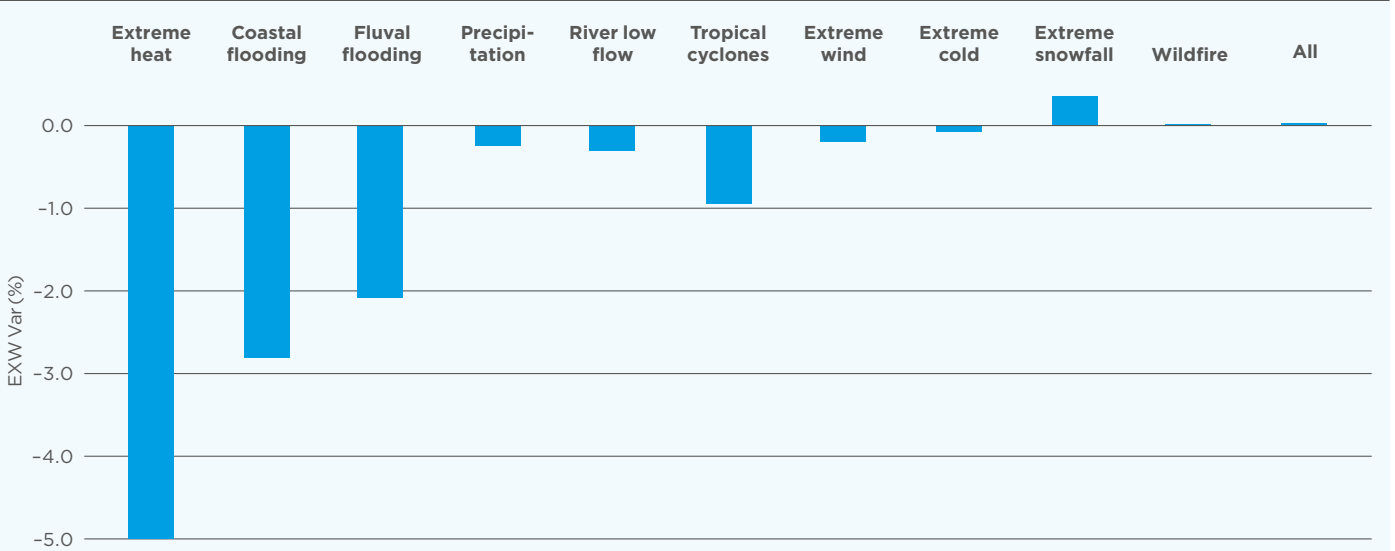
Source: MSCI and CCLA, 31 March 2024.

Climate change is going to impact all our assets in one way or another, so preventing further damage to the environment must be a collective effort. Due to our exclusions related to certain areas of fossil fuel, our climate VaR is low across all of our equities compared to the MSCI World Index, however it does not mean that these assets will be exempt from the impacts of climate change. The ITR of 2.01 degrees Celsius implies that some of the businesses in our funds do not align fully with a 1.5- or 2-degree scenario at present. In an orderly transition, policy risks create more significant costs and risks for businesses, making the transition more expensive as a whole (hence the higher climate VaR).

In a disorderly transition, policy risks are somewhat mitigated as there is more time to implement policy and take businesses on a journey. Finally, in a hot house world scenario, while policy risks are limited, the physical risks are more significant for businesses.

Climate related physical risk affects all company facilities, at least to some degree. Particularly at risk are those companies with locations in climate sensitive regions, or with assets that have a long lifespan and cannot be moved (e.g. an office block). The most significant drivers of physical impacts in our equities are extreme heat and coastal flooding.

PHYSICAL CLIMATE VAR OF THE PORTFOLIO BY HAZARD



Source: MSCI and CCLA, 31 March 2024.

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

DEFINITION: FEEDBACK LOOP

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

Scenario analysis limitations

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

While the 3 degrees Celsius hot house world scenario has the lowest climate VaR, our data provider's modelling does not currently enable us to proportionately increase the physical risks associated with a 3-degree scenario. We should therefore expect a more significant physical climate VaR for this scenario.

The scenarios we model are not forecasts or predictions of the future. We do not assign probabilities to these outcomes and do not compare their likelihood of being realised. We are committed to the Paris Agreement's objective of limiting global temperature increases to 1.5 degrees Celsius, meaning this is our desired outcome.

The modelling tool does not enable us to look at various socio-economic pathways (SSP). All scenarios are currently based on SSP2, which assumes that society evolves broadly in line with past trends. However, without a just transition we could well end up with SSP4, where highly unequal investments in human capital, combined with increasing disparities in economic opportunity and political power, lead to increasing inequalities and stratification both across and within countries, culminating in social unrest and conflict.

Nearly all 'Paris aligned' modelled scenarios use some form of negative emissions or carbon capture to get to net zero, because there are some unavoidable emissions. Offsetting schemes and relying on negative emissions can be a distraction from the key priority to reduce absolute emissions. In the short to medium term, we prefer to focus our efforts on real world emissions reductions to our carbon footprint. However, negative emissions have a critical role to play in the long term. New solutions are under development but much more investment and research will be required to scale both technological and nature-based solutions to meet future net zero demands. Access to negative emissions through the offsetting schemes' market also needs stronger international standards, certification and governance to ensure negative emissions are robust, transparent and well regulated.

Data gaps and notes

The lack of detailed carbon data coverage in alternative assets, property, and cash makes it difficult to provide the same level of disclosure as for listed equities. For this reason, we do not currently have targets for our other asset classes.

Due to data availability in alternative assets, we currently cannot provide accurate or complete backwards and forward-looking carbon and climate data. We expect that for private equity and real estate investment trust type funds, that the managers of these investments eventually will be required to report TCFD compliant carbon and climate information, and thereby enable us to report on these asset classes.

Due to lack of defined methodologies for money market instruments, in our case certificates of deposits (CDs), calculating the carbon footprint of the CDs would require access to the exact use of proceeds which is the banks' proprietary information. Therefore, we cannot provide accurate carbon footprint data for our deposit funds.

For our property funds, we have engaged an external consultant to resolve data collection issues from properties where we rely on tenant voluntary energy consumption disclosure, which will enable us to get a complete and more accurate carbon emissions profile for our properties going forwards. This project is currently ongoing.

For our fixed interest funds (CBF Short Duration Bond Fund and COIF Short Duration Bond Fund) where CCLA IM has appointed Federated Hermes as the sub-investment manager, we rely on their data reporting. Data sources, estimations and modelling approaches may differ which is why data between our listed equity and multi-asset funds cannot be compared with the data in our sub-assigned fixed interest funds.

For other fixed interest instruments or funds, we currently do not have data. We will engage with third party funds managers to increase our coverage in this space over time.

Risk management

Identifying and assessing climate-related risks

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

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

Equities

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

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

- Companies whose business is focused on thermal coal.^{vi}

- Companies that derive more than 5% of their revenue from the extraction of oil sands.
- Companies that derive more than 10% of their revenue from the extraction, production and/or refining of oil and gas.

Assess the most exposed companies' position against the Paris Climate Change Agreement. Recognising the potential for regulation, legislation and changing consumer preferences to impact upon future profitability, we assess the decarbonisation plans of those companies that are in carbon-intensive sectors, prior to purchase. On the back of this analysis, we require the approval of CCLA's Investment Committee prior to investing in companies in the electrical utility and oil and gas sectors that are not assessed as being aligned with the NDCs (nationally determined contributions).^{vii}

We review our equities using a proprietary financial materiality framework which identifies those stocks particularly affected by climate change.

DEFINITION: THERMAL COAL

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

vi We exclude companies with more than 5% revenue from thermal coal. We further apply exclusions to the businesses on the Urgewald Global Coal Exit List.

vii Our analysis is based on the Transition Pathway Initiative Online Tool: www.transitionpathwayinitiative.org/sectors

Fixed interest

At present we apply the same climate change-related screens to our fixed interest investments as we do to our listed equity investments. You can find our fixed interest investment policy at the following link [Fixed interest investments policy](#).

Property

We believe that sustainability factors will impact the future profitability of property assets. As a consequence, our responsible property investment policy applies to the selection, management and refurbishment of all property assets under our stewardship. Whilst it is easy to think of sustainable property investing as building new, energy efficient facilities, we have consciously avoided new and modern investment options. Such buildings can cost more to run, and depreciation is higher. Instead, our strategy has been to identify underrated assets, often in good locations, and upgrade their environmental and social attributes and performance and, in so doing, their value.

Prior to any purchase we consider:

- environmental risk issues that may manifest as liabilities, e.g. contaminated land, flood risk, presence of hazardous substances
- environmental energy use audits
- the ability to drive improvements through refurbishment, where we believe we can drive improvements in value.

In addition, we undertake anti-money laundering assessments on counterparties involved in sales and acquisitions and significant parties, review tenants for corruption and bribery prior to entering into new lease agreements. We consider sustainability factors in the price that we are willing to offer and/or accept for an investment.

Once we have purchased a property, if we see potential value, we refurbish to improve environmental and social performance at an appropriate point in the lifecycle of our investment.

We appoint managing agents to look after our properties on a day-to-day basis. As part of this work, they are tasked with:

- monitoring energy use, water consumption, waste and CO2 emissions
- procuring energy from renewable sources
- conducting proactive occupier engagement, including tenant surveys, covering a variety of ESG factors at least every two years
- minimising health and safety incidents
- monitoring of any environmental risks identified on purchase.

In order to implement this policy, our third-party property manager reports regularly on progress.

Our approach to responsible investment in property is still progressing. To this end we have engaged an external property consultant, EVORA, to help us improve the sustainability profile of the properties we invest in through our property funds.

Alternatives and third-party funds

Within our funds' and clients' portfolios, we use alternative investments to provide diversification against equity-related risks which can generate cash flow and real returns (i.e. in excess of inflation) to contribute towards meeting the investment objectives. We also view investment in alternatives as a route to funding solutions to the sustainability challenges facing our communities. Our alternative investments include:

- infrastructure assets (general infrastructure, energy-related infrastructure and social infrastructure)
- contractual income assets (which receive contracted cash flows over a specific period and are typically secured against assets, for example, loans and mortgages)
- real estate investment trusts
- private equity assets.

Sustainability considerations

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

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

Gas

Within third-party infrastructure funds, energy-related infrastructure sometimes includes midstream assets. This covers infrastructure assets and the operating companies that perform transportation and storage services for natural gas and petroleum products. These projects are distinct from 'upstream', which represents drilling and production activities; and downstream, which refers to the preparation and distribution of products to end users in industrial and residential settings. We have a policy to cap revenue from midstream gas at 25% and we do not invest in assets with more than 10% revenue from the extraction, production and refining of oil and gas.

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

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

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

viii In the 2023 calendar year our main data provider for this was MSCI.

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

Cash and money market instruments

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

At present, we monitor counterparties' exposure to financing climate change. The approach is based on the Task Force on Climate-related Financial Disclosures (TCFD) reporting. We note which banks are supporters of TCFD.

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

We are currently reviewing our approach to assessing counterparties and we are seeking to expand on our current approach.

Fund level risk control

We seek to limit the aggregate levels of climate risk within our funds. We implement strict rules to ensure that the aggregate weighted average carbon footprint of all CCLA listed equity holdings is not higher than that of the MSCI World Index.

Managing climate-related risks

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

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

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

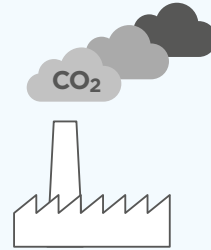
We believe that although selling high carbon and purchasing low-carbon businesses would cut portfolio emissions in line with a potential net-zero target, it would have little or no climate impact. Instead, these businesses would be bought by other investors and would continue to emit at the same level.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

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

ACTIONS, NOT TRANSACTIONS

Pre-portfolio decarbonisation

Prior to decarbonisation the portfolio has substantial emissions

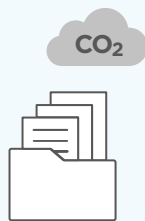


Transactions approach

To achieve decarbonisation the investor sells a 'high carbon' holding and purchases a lower carbon-emitting company

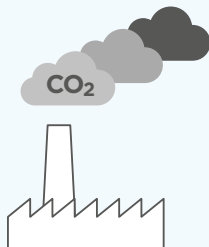
Portfolio emissions outcome

As a result of the sale and purchase transaction, the investment portfolio's carbon footprint shrinks



Real world emissions outcome

However, as the company has been purchased by another investor the company's emissions – and negative impact – remain the same



Actions approach

To achieve decarbonisation the investor engages with the company with the aim of pushing it to take new actions to reduce emissions

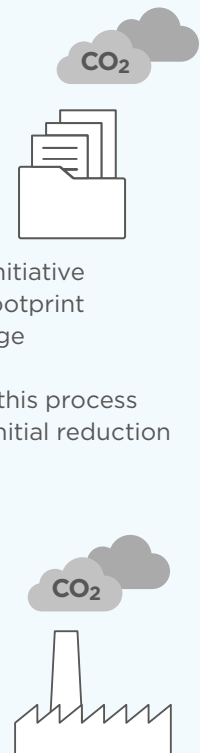
Portfolio emissions outcome

As a result of the engagement the company implements a new emissions reduction initiative and the portfolio's carbon footprint shrinks in line with this change

Given the gradual nature of this process this is likely to be a smaller initial reduction in the portfolio's footprint

Real world emissions outcome

However, as the company has reduced its climate impact real world emissions have also fallen



This means that the investor's approach to net zero has encouraged action that has a positive climate impact.

Stewardship and the transition to low carbon

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

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

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

Our overall aim for real world impact is to reduce corporate emissions globally. CCLA considers it essential that companies should make credible decarbonisation commitments based in science. This means ensuring emissions overall stay within the global carbon budget for remaining within a 1.5 degrees Celsius temperature rise.

We have identified the highest 30 greenhouse gas-emitting companies that we invest in using absolute Scope 1 and 2 and estimated Scope 3 emissions across funds. Our focus is on those companies where we can leverage engagement through participation in existing collaborative initiatives, with CA100+, IIGCC and CERES/ICCR. Our focus is to persuade companies to set credible decarbonisation plans, to assess performance against these plans and to follow through on implementation. We monitor progress using the independent

CDP scoring methodology, aiming to drive companies towards an 'A' rating. This selection and focus will also ensure that resources can be available for intensive engagement when required.

Primary engagement focus

Systemic priorities: We identify which portfolio companies that are the most carbon intensive and have systemic importance to the required decarbonisation transition. Participating in collaborative engagement with portfolio companies with investor engagement initiatives leverages access and outcomes. We undertake engagement through the following initiatives:

- Climate Action 100+: CA100+ aims to ensure the world's largest corporate greenhouse gas (GHG) emitters take necessary action on climate change. The initiative now has 170 focus companies and is made up of over 700 asset managers, covering 33 markets⁷.
- IIGCC Net Zero Engagement Initiative (NZEI): CCLA's strategic engagement with other high impact companies in Europe has been extended through this initiative which prioritises engagement with selected companies based on target-setting and transition plans. The initiative primarily focuses on demand side and smaller supply chain companies that are critical to the overall transition to net zero.
- CDP: We participate in the non-disclosure campaign with the aim to drive-up rates of corporate disclosure.

Financed emissions: CCLA recognise the role that the financial services industry plays through the provision of finance to high emission projects. Engagement includes a focus on bank lending, financing and investing activities that affect the pace of the systemic change required. In 2023 we engaged with Lloyds Bank and US Bancorp on their financed emissions disclosure and targets.

Secondary engagement focus

Largest contributors: For other 'top 30' emitting companies, CCLA engages directly with engagement focused on setting science-based targets and demonstration of progress against these. Engagement is developed to meet specific challenges for the company and includes references to initiatives such as the Science Based Targets initiative (SBTi) RE100 and Travel Smart.

Portfolio coverage and baseline

disclosure: Given that climate change will affect all companies that we invest in, we ensure that engagement with these companies beyond the primary targets is undertaken through a variety of approaches. We co-ordinate collaborative engagement with UK listed companies, asking for publication of a climate transition plan and that this should be put to a shareholder vote at their AGMs. We also participate in existing investor collaborations covering these companies including NZEI, the CERES and ICCR banking working group and the CDP Science-Based Targets and non-disclosure campaigns.

In addition, our voting positions are aligned with our engagement and are used to complement our 'better environment' work. Our shareholder voting guidelines setting these out are updated annually. On climate, this includes expected commitments from company directors for aligning company strategy with the Paris Agreement, and expected disclosures in company reports and accounts. Correspondence is undertaken with company directors where management proposals or positions are not supported and indicates why. Our voting guidelines and records can be found at www.ccla.co.uk/sustainability/corporate-governance/voting-records.

For additional impact, in line with other thematic engagement strategies, there is the amplifying effect where we engage with companies not held directly, through collaborative initiatives such as that on transition plan voting (Say on Climate) and IIGCC's NZEI.

DEFINITIONS

SBTi mobilises the private sector to take the lead on urgent climate action by guiding companies in science-based target setting.

See <https://sciencebasedtargets.org>

RE100 is a global initiative bringing together the world's most influential businesses committed to 100% renewable electricity.

See www.there100.org

Travel Smart is a global campaign led by Transport & Environment (T&E) within a coalition of partners across Europe, North America and Asia aiming at reducing corporate air travel emissions, as the most effective way to significantly reduce aviation's climate impacts in the present decade.

See <https://travelsmartcampaign.org>

Supporting progressive legislation

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

As we invest globally, we also participate in other markets where we can influence systemic change. CCLA works directly with the private finance workstream of the UK and Canadian governments' Powering Past Coal Alliance (PPCA) to develop and promote the PPCA Finance Principles. These set out how to align coal power-related financial services and investments with the goals of the Paris Agreement. We also pursue progressive legislation through our membership of the Institutional Investors Group on Climate Change (IIGCC), which has global reach.

As a member of a number of collaboration initiatives, we support a number of collective calls for action. Looking forward, we will continue our direct and indirect policy activity and take further action to support our clients in their efforts to move towards net-zero emissions.

ENGAGEMENT CASE STUDIES

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



2007

Early signatory to UN Principles for Responsible Investment



2012

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



2015

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



2017

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

CCLA joined Powering Past Coal Alliance



2010

Started climate action pathway with carbon disclosure watch list

2013

The COIF Charities Ethical Fund restricted investment in thermal coal

CCLA became a cornerstone investor in the Bluefield Solar Income Fund



2016

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



GLENCORE

RioTinto

2019

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

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



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

†Defined as companies that derive more than 10% of their revenues from the extraction, production or refining of oil and gas.



2020

Seed investors of the Clean Growth Fund with the UK government

CCLA sold remaining direct holdings in oil and gas extraction companies[†]



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

CCLA joined Financing a Just Transition Alliance

2022

CCLA co-filed a shareholder resolution for consideration at the 2023 Bank of America AGM on climate transition plans

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

2021

CCLA pledged to achieve net zero by 2050

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

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



NextEra Energy responded to engagement by increasing climate disclosures

Founding signatory of IIGCC Net Zero Asset Managers initiative



NET ZERO ASSET MANAGERS INITIATIVE

2023

The Transition Plan Taskforce (TPT) issued its final disclosure framework. CCLA's Helen Wildsmith sits on the Taskforce's Delivery Group

Strong shareholder support (28.5%) achieved for a transition plan shareholder resolution that CCLA co-filed at Bank of America in late 2022

Focused engagement targeting our 30 highest greenhouse gas-emitting portfolio companies. Meetings held with 16 during 2023

CCLA now CA100+ co-lead for engagement with Unilever, Nestlé, Home Depot and Honeywell

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

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

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

- investment portfolio-related metrics (portfolio carbon measures and climate VaR)
- operational carbon footprint.

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

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

Metrics and targets

Climate risk assessment metrics

Carbon footprint

We routinely monitor our listed equity holdings' performance against the benchmark's (MSCI World Index) weighted average carbon footprint. We use the weighted average carbon intensity as our metric which includes GHG (greenhouse gas) Scope 1 and Scope 2 emissions.

Restrictions

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

Industry	Restriction policy
Mining	Mining companies that generate more than 5% of their revenue from the extraction of energy coal, produce more than 10 million metric tons of coal, or have plans to expand their coal production
Electrical utilities	Electrical utility and infrastructure companies that intend to expand their coal-fired generation capacity
Oil and gas	Companies which generate more than 10% of revenues from extraction, production or refining
Thermal coal	More than 5% turnover and any of the businesses on Urgewald's Global Coal Exit List
Tar sands	More than 5% turnover

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

To provide further assurance, and set a minimum standard, companies in the electrical utility and oil and gas sectors that are not assessed as being aligned with the NDCs (that form part of the Paris Agreement) require the approval of CCLA's Investment Committee prior to purchase. Companies outside the coverage of TPI are evaluated on a best endeavours basis.

Due to the particular nature of the challenges facing the oil and gas industry, when looking at their future revenue expectations we have amended company valuations to reflect anticipated long-term changes in energy demand during the low-carbon transition. This makes the sector less attractive in our investment model and is a contributing factor in our current decision restrictions policy on the fossil fuel sector (see table above). In addition, most companies in this sector are not aligned with the Paris Agreement (according to TPI).

Greenhouse gas emissions: Scope 1, 2 and 3

In our investments

Our investment portfolio consists of listed equities, private equity, contractual income, property, cash and alternative investments as well as fixed interest. At present, due to data availability and coverage we are only able to provide GHG emissions data for our listed equity holdings for which data is available.

Climate data point (MSCI) as at 31 March 2024	Unit	CCLA listed equities	MSCI World
Coverage ratio		47.18%	99.70%
Carbon emissions (footprint – Scope 1 and 2)	tCO ₂ e/\$m invested	12.20	127.8
Total carbon emissions (Scope 1 and 2) based on a portfolio of \$1 billion	tCO ₂ e	12,151	127,807
Scope 3 – upstream based on a portfolio of \$1 billion	tCO ₂ e	67,180	225,757
Scope 3 – downstream based on a portfolio of \$1 billion	tCO ₂ e	75,366	429,190
Carbon intensity (Scope 1 and 2)	tCO ₂ e/\$M Sales	42.20	169.7
Weighted average carbon intensity (WACI)	tCO ₂ e/\$m sales	43.50	145.1
Financed carbon emissions (Scope 1 and 2)	tCO ₂ e/\$m invested	9.00	75.00
Financed carbon emissions (Scope 3 – upstream)	tCO ₂ e/\$M Invested	53.90	148.00
Financed carbon emissions (Scope 3 – downstream)	tCO ₂ e/\$m invested	55.50	300.10

Our listed equity investments are lower in relative emissions and emissions intensity than the broader listed equity investable market (as measured by the MSCI World index) which are consistent with our fossil fuel exclusion policies.

Scope 3 emissions are mostly estimated by MSCI and there is a high risk of double counting because one company's scope 1 or 2 emissions are someone else's scope 3. Current models do not allow for correcting this. Therefore, their magnitude should be approached with a degree of scepticism.

In our own operations

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

The organisational boundary of CCLA's carbon footprint is:

- office consumption: electricity, water, waste and refrigerants
- procurement: paper usage, IT equipment, food and drink, digital network and other office supplies
- business travel: hotel stays, road, rail and air miles
- employee behaviour: employee commuting and emissions data related to working from home.

Overall, CCLA's carbon footprint decreased by 16% between FY23 and FY24. The largest reduction in GHG emissions was in the employee working behaviours category. This is due to an increase of employees opting for public transport, a 23.0% increase in distance commuted by walking/cycling which have no associated GHG emissions, and a reduction of gas usage for heating homes when working remotely. Only one activity saw a significant increase in FY2024 which was paper, mainly due to outsourced printing services.

Year-on-year comparison against previous reporting year

Activity	GHG emissions (tCO2e)		YoY % change
	2022/23	2023/24	
Hospitality	94.45	85.90	-9%
Commuting	98.06	66.08	-33%
Business travel	81.43	46.35	-43%
Paper	3.91	43.55	1014%
Working from home	50.19	42.45	-15%
Information technology	22.81	27.95	23%
Other office supplies	23.69	1.36	-94%
Electricity	1.11	1.36	23%
Transport and distribution	0.83	0.80	-3%
Water usage	0.36	0.37	4%
Waste	0.03	0.23	652%
Total	376.87	316.40	-16%

Climate targets: a work in progress

In our investments

Our approach to setting targets is based on the scientific findings from the IPCC *Special Report on Global Warming of 1.5°C*⁸ and the UNEP Gap Report (2020)⁹, combined with information provided by investor networks' publication of Net Zero Target Frameworks. In developing these targets, we seek to acknowledge the systemic nature of climate change and the developing nature of the science and methodologies used to develop and define 1.5 degree Celsius alignment.

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

The shaded area between these two decarbonisation rates reflects that the definition and development of 1.5 degree Celsius-aligned scenarios is still evolving and that we aim to use the best available methodology to inform the appropriate level of our listed equity investments' emissions ceiling.

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

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

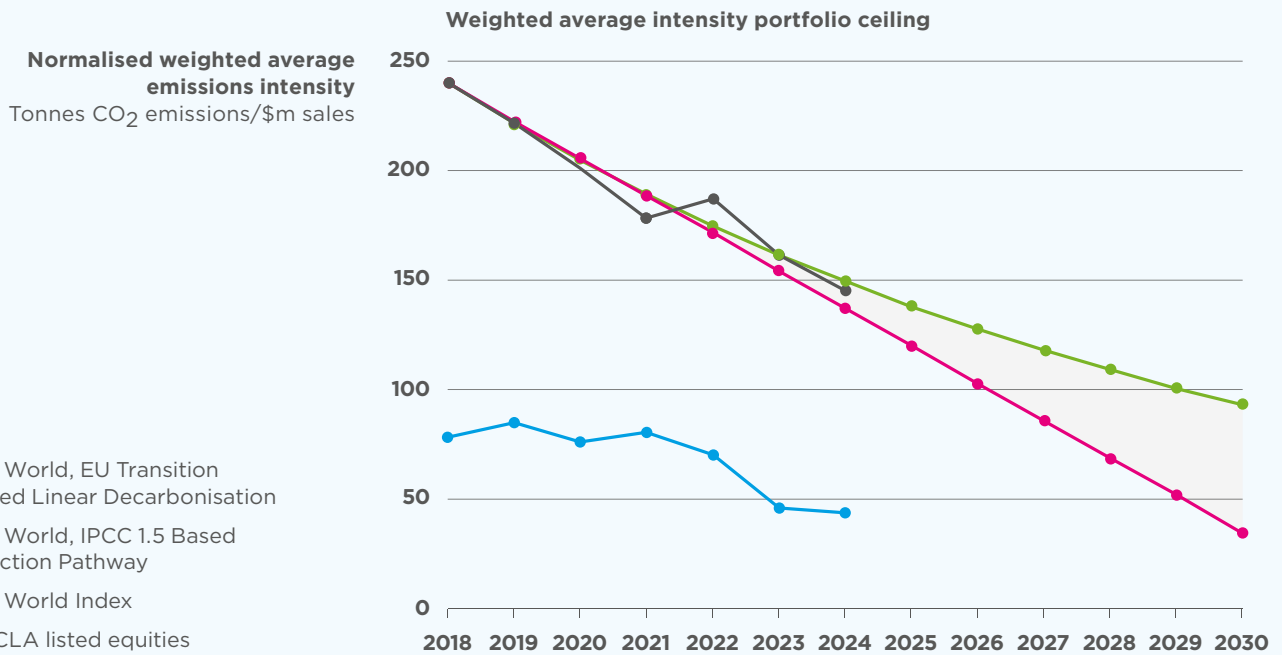
In our own operations

In order to guide us on our net zero journey, we have started modelling emissions reduction scenarios based on our current scope of emissions data collection. We have not yet formally set emissions reduction targets, as data collection and our methodology evolve and are awaiting further guidance from the TPT on transition planning for Asset Managers.

DEFINITION: JUST TRANSITION

A Just Transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind. (*International Labour Organisation*)

SETTING NET-ZERO TARGETS



Source: IPCC, MSCI and CCLA, 31 March 2024

Closing remarks

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

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

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

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

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

Climate VaR and carbon data for our equity & multi-asset funds

The below table shows the climate VaR and carbon data for our listed equity investments and our equity and multi-asset funds as at 31 March 2024, sourced from MSCI.

Only listed equities (excluding listed investment trusts or other listed investment vehicles) are covered, as we do not have data for other asset classes. Please refer to the 'Data gaps' section, above, for more information.

The carbon footprint has been calculated as if 100% of the fund was invested in listed equities (as defined above). The coverage ratio serves as an indication of the proportion of assets for which we have data. It also considers the exposure to listed equity investments.

Asset class		Equities						Multi-asset				
Climate data point (MSCI)	Unit	CCLA listed equities	MSCI World	COIF Global Equity Fund	CBF Global Equity Fund	CBF UK Equity Fund	Better World Global Equity Fund	COIF Investment Fund	COIF Ethical Investment Fund	Catholic Investment Fund	CBF Investment Fund	Better World Cautious Fund
Coverage ratio		47.18%	99.70%	98.70%	98.50%	97.10%	98.50%	70.97%	71.10%	72.50%	70.13%	36.80%
Carbon emissions (footprint – Scope 1 and 2)	tCO2e/\$m invested	12.20	127.8	10.8	10.8	10.1	10.8	10.8	10.8	11.2	10.8	11
Total carbon emissions (Scope 1 and 2) based on a portfolio of \$1 billion	tCO2e	12,151	127,807	10,778	10,817	10,059	10,817	10,811	10,823	11,236	10,850	10,994
Scope 3 – upstream based on a portfolio of \$1 billion	tCO2e	67,180	225,757	55,118	53,311	75,570	53,311	54,643	54,624	55,235	52,842	53,488
Scope 3 – downstream based on a portfolio of \$1 billion	tCO2e	75,366	429,190	33,108	27,609	39,590	27,609	32,695	25,079	30,001	27,252	27,601
Carbon intensity (Scope 1 and 2)	tCO2e/\$m sales	42.20	169.7	50.1	50.8	28.7	50.8	50.5	47	53.1	51.3	51.3
Weighted average carbon intensity (WACI)	tCO2e/\$m sales	43.50	145.1	52.3	52.9	25.5	52.9	53	53.4	54.5	53.7	54.3
Financed carbon emissions (Scope 1 and 2)	tCO2e/\$m invested	9.00	75.00	8.4	8.5	8.7	8.5	8.4	8.4	8.8	8.5	8.6
Financed carbon emissions Scope 3 – upstream	tCO2e/\$M Invested	53.90	148.00	47.8	47.1	59	47.1	47.4	45.9	47.7	46.6	47.1
Financed carbon emissions Scope 3 – downstream	tCO2e/\$m invested	55.50	300.10	30.5	26.1	35.4	26.1	30.1	23.6	27.6	25.8	26.1

Climate scenario modelling

Climate Scenarios	Climate Data Point	CCLA listed equities*	MSCI World	COIF Global Equity Investment Fund	CBF Global Equity Investment Fund	CBF UK Equity Fund	Better World Global Equity Fund	COIF Investment Fund	COIF Ethical Investment Fund	Catholic Investment Fund	CBF Investment Fund	Better World Cautious Fund
Orderly	Policy climate VaR	-2.43%	-16.72%	-1.93%	-1.87%	-1.92%	-1.87%	-1.92%	-1.81%	-1.95%	-1.86%	-1.89%
	Technology opportunities climate VaR	0.22%	2.37%	0.11%	0.08%	0.42%	0.08%	0.11%	0.08%	0.08%	0.08%	0.08%
	Physical climate VaR	-4.01%	-12.21%	-3.14%	-3.13%	-4.77%	-3.13%	-3.13%	-3.33%	-2.96%	-3.12%	-3.16%
	Aggregated Climate VaR	-6.22%	-26.56%	-4.96%	-4.92%	-6.27%	-4.92%	-4.94%	-5.06%	-4.82%	-4.90%	-4.97%
Disorderly	Policy climate VaR	-1.51%	-12.27%	-1.27%	-1.24%	-1.24%	-1.24%	-1.27%	-1.20%	-1.29%	-1.23%	-1.25%
	Technology opportunities climate VaR	0.10%	1.26%	0.06%	0.04%	0.19%	0.04%	0.06%	0.04%	0.04%	0.04%	0.04%
	Physical climate VaR	-4.01%	-12.93%	-3.14%	-3.13%	-4.77%	-3.13%	-3.13%	-3.33%	-2.96%	-3.12%	-3.16%
	Aggregated climate VaR	-5.41%	-23.94%	-4.36%	-4.33%	-5.82%	-4.33%	-4.34%	-4.49%	-4.20%	-4.31%	-4.37%
Hot house world	Policy climate VaR	-0.31%	-3.83%	-0.33%	-0.33%	-0.22%	-0.33%	-0.33%	-0.32%	-0.33%	-0.33%	-0.33%
	Technology opportunities climate VaR	0.05%	0.55%	0.02%	0.01%	0.10%	0.01%	0.02%	0.01%	0.01%	0.01%	0.01%
	Physical climate VaR	-4.98%	-15.27%	-3.90%	-3.96%	-5.77%	-3.96%	-3.96%	-4.17%	-3.71%	-3.94%	-3.99%
	Aggregated climate VaR	-5.24%	-18.54%	-4.28%	-4.27%	-5.90%	-4.27%	-4.27%	-4.49%	-4.03%	-4.26%	-4.31%
Implied temperature rise in degrees Celsius	2.01	2.43	2.16	2.16	2.22	2.16	2.1	2.13	2.19	1.93	2.17	

*This figure includes CCLA listed equity holdings in equity funds and multi-asset funds as well as segregated mandates. The figure does not represent an average of the funds listed here.

Climate VaR and carbon data for our fixed interest funds

The below table shows the climate VaR and carbon data for our fixed interest funds as at 31 December 2023, sourced from Planetrics and provided by the sub-investment manager Federated Hermes.

Due to a difference in data providers and models, the metrics are not comparable with our equity and multi-asset funds. Policy risks are disaggregated as changes in revenues, costs and market impact. The resulting net present value (NPV)

at risk is an aggregate figure comprising physical impacts on companies' revenues, changes to policy on companies' revenues and costs, and market impacts which are defined as changes in profit from companies' ability to pass through costs to consumer and take market share from more emissions intensive competitors. Physical risks are summarised under 'physical impact'. The temperature alignment uses a similar approach, however, forecast results will differ.

Carbon emissions (footprint)	Unit	Church of England Short Duration Bond Fund	COIF Charities Short Duration Bond Fund
Total carbon emissions	tCO2e	19,982.98	7,196.16
Scope 1	tCO2e	7,871.68	2,818.41
Scope 2	tCO2e	2,493.32	898.39
Scope 3	tCO2e	9,617.97	3,479.36
Carbon intensity	tCO2e/\$m sales	304.76	298.9
Weighted average carbon intensity (WACI)	tCO2e/\$m sales	254.83	248.87
Financed carbon emissions (Scope 1 and 2)	tCO2e/\$m invested	90.49	88.22
Financed carbon emissions (Scope 3 - upstream)	tCO2e/\$m invested	83.97	82.59

Source: Planetrics, as at 31 December 2023.

		Church of England Short Duration Bond Fund	COIF Charities Short Duration Bond Fund
Net Zero 2050 (Orderly)	Physical impacts	-0.05%	-0.05%
Transition risks	Changes in revenues	0.01%	0.01%
	Changes in costs	-2.24%	-2.29%
	Market impact	1.53%	1.55%
	Aggregate NPV at risk	-0.75%	-0.79%
Delayed transition (Disorderly)	Physical impacts	-0.06%	0.05%
Transition risks	Changes in revenues	0.01%	0.01%
	Changes in costs	-1.08%	-1.12%
	Market Impact	0.83%	0.85%
	Aggregate NPV at risk	-0.30%	-0.32%
Hot house world	Physical impacts	-0.16%	-0.16%
Transition risks	Changes in revenues	0.00%	0.00%
	Changes in costs	0.00%	0.00%
	Market Impact	0.12%	0.11%
	Aggregate NPV at risk	-0.04%	-0.04%
Temperature alignment	degrees Celsius	3.00	2.97

Source: Planetrics, as at 31 December 2023.

Formulas

Carbon emissions

$$\frac{\sum_n^i \left(\frac{\text{current value of investments}_i}{\text{issuer's market capitalisation}_i} \right) \times \text{issuer's Scope 1 + 2 GHG emissions}_i}{\text{current portfolio value (\$million)}}$$

This measure sums up the scope 1 and scope 2 greenhouse gas emissions in the portfolio based on the investor's ownership share and it is expressed as tonnes of Carbon Dioxide equivalents (tCO₂e) per \$1 million invested. The larger the number, the greater the contribution to the effects of climate change.

Total carbon emissions

$$\sum_n^i \left(\frac{\text{current value of investments}_i}{\text{issuer's market capitalisation}_i} \right) \times \text{issuer's Scope 1 + 2 + 3 GHG emissions}_i$$

Measures the total carbon emissions for which an investor is responsible by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization). This measure sums up all the emissions (Scope 1 + 2 + 3) in the portfolio based on an investor's portfolio size of \$1 billion.

Carbon intensity

$$\frac{\sum_n^i \left(\frac{\text{current value of investments}_i}{\text{issuer's market capitalisation}_i} \right) \times \text{issuer's Scope 1 + 2 GHG emissions}_i}{\sum_n^i \left(\frac{\text{current value of investments}_i}{\text{issuer's market capitalisation}_i} \right) \times \text{issuer's \$million revenue}_i}$$

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 (% market capitalisation).

Weighted average carbon intensity (WACI)

$$\sum_n^i \left(\frac{\text{current value of investments}_i}{\text{issuer's market capitalisation}_i} \times \frac{\text{issuer's Scope 1 + 2 GHG emissions}_i}{\text{sovereign issuer's \$million GDP}_i} \right)$$

Measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' Carbon Intensity (emissions/sales), expressed in tCO₂e/\$1m sales. The larger the number, the more carbon intensive the investments currently are.

Financed emissions (FE)

$$\frac{\sum_n^i \left(\frac{\text{current value of investments}_i}{\text{issuer's EVIC}_i} \right) \times \text{issuer's Scope 1 + 2 GHG emissions}_i}{\text{current portfolio value (\$million)}}$$

This metric represents the total financed greenhouse gas (GHG) emissions associated with the fund. The larger the number, the more it is contributing to the effects of climate change. The FE is directly related to the size of the fund and therefore it is difficult to use to compare across funds. Enterprise value including cash (EVIC) is an alternate measure to enterprise value (EV) to estimate the value of a company by adding back cash and cash equivalents to EV.

$$\text{EVIC} = \text{market capitalisation at fiscal year-end date} + \text{preferred stock} + \text{minority interest} + \text{total debt}$$

Total carbon emissions CCLA (operations)

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

Activity	GHG emissions (tCO ₂ e)				Normalised emissions tCO ₂ e/FTE
	Scope 1	Scope 2	Scope 3	Total	
Hospitality	-	-	85.90	85.90	0.47
Commuting	-	-	66.08	66.08	0.36
Business travel	-	-	46.35	46.35	0.25
Paper	-	-	43.55	43.55	0.24
Working from home	-	-	42.45	42.45	0.23
Information technology	-	-	27.95	27.95	0.15
Electricity (market based)	-	1.76	-	1.76	0.01
Other office supplies	-	-	1.36	1.36	0.01
Transport and distribution	-	-	0.80	0.80	0.004
Water	-	-	0.37	0.37	0.002
Waste	-	-	0.23	0.23	0.001
Total	-	-	316.80	316.80	1.73

Net Zero Asset Managers initiative

The Net Zero Asset Managers commitment	Listed equities
a) Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net-zero emissions by 2050 or sooner across all assets under management (AUM)	We work with our clients on meeting their requests to reach net zero by 2050 or sooner. This is done through the pitch and onboarding process and through client surveys.
b) Set an interim target for the proportion of assets to be managed in line with the attainment of net-zero emissions by 2050 or sooner	Refer to our target setting methodology in the section ' In our investments ', above.
c) Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included	We are currently working on climate targets to encompass other asset classes. See ' Data gaps ', above.

In order to fulfil these commitments, we will do the following:

1. Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO ₂ identified as a requirement in the IPCC <i>Special Report on Global Warming of 1.5°C</i>	Refer to our target setting methodology in the section ' In our investments ', above.
2. Take account of portfolio Scope 1 and 2 emissions and, to the extent possible, material portfolio Scope 3 emissions	Refer to our emissions disclosures. See the section ' In our investments ', above.
3. Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest	Refer to the section ' Managing climate-related risks ', above.
4. If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions	We do not use offsets at present.
5. As required, create investment products aligned with net-zero emissions by 2050 and facilitate increased investment in climate solutions	Please refer to the ' Risk management ' section which explains how our products aim to align with net-zero emissions by 2050.

Across all assets under management

6. Provide asset owner clients with information and analytics on net-zero investing and climate risk and opportunity	We provide clients with information on request and publish climate-related information in our sustainability outcomes report and TCFD report annually, where we have available data.
7. Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net-zero emissions by 2050 or sooner	Please refer to our voting guidelines and the section ' Managing climate-related risks ', above.
8. Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net-zero emissions by 2050 or sooner	We engage with our data providers on our needs and requirements regularly, so that we have the right tools available to achieve the aim of global net-zero emissions by 2050.
9. Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net-zero emissions by 2050 or sooner	Our work through the Powering Past Coal Alliance, the Financing a Just Transition Alliance and the UK Transition Plan Taskforce is in line with supporting global net-zero emissions by 2050 or sooner.

Net Zero Asset Managers' initiative (continued)

Accountability

10. Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria ¹⁰ , and action is being taken in line with the commitments made here	This report fulfils the requirement to publish TCFD disclosures. Our membership with NZAM and the information in this document are in line with the UN Race to Zero Criteria. This report outlines our pledge, our plan, how we proceed and the publication of progress.
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We recognise collaborative investor initiatives including the Investor Agenda and its partner organisations (AIGCC, CDP, Ceres, IGCC, IIGCC, PRI, UNEP FI), Climate Action 100+, Climate League 2030, Paris Aligned Investment Initiative, Science Based Targets Initiative for Financial Institutions, UN-convened Net Zero Asset Owner Alliance, among others, which are developing methodologies and supporting investors to take action towards net-zero emissions. We will collaborate with each other and other investors via such initiatives so that investors have access to best practice, robust and science-based approaches and standardised methodologies, and improved data, through which to deliver these commitments

We collaborate with such organisations to deliver these commitments. See the section '[Climate-related risks and opportunities over the short, medium and long term](#)', above.

We also acknowledge that the scope for asset managers to invest for net zero and to meet the commitments set forth above depends on the mandates agreed with clients and clients' and managers' regulatory environments. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their NDCs, and in the context of our legal duties to clients and unless otherwise prohibited by applicable law. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. Where our ability to align our approach to investment with the goal of net-zero emissions by 2050 is, today, constrained, we commit to embark with determination and ambition on a journey, and to challenge and seek to overcome the constraints we face

Please refer to the section '[Data gaps](#)', above

Endnotes

- 1 The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions. Online at www.netzeroassetmanagers.org
- 2 Intergovernmental Panel on Climate Change (IPCC), *Special Report: Global Warming of 1.5°C*. Online at www.ipcc.ch/sr15
- 3 Paris Agreement (2015). Online at https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en
- 4 World Economic Forum (WEF) (2024), *The Global Risks Report 2024*. Online at www3.weforum.org/docs/WEF_The_Global_Risks_Report_2024.pdf
- 5 OECD, 'Financing climate futures: rethinking infrastructure. Policy highlights'. Online at www.oecd.org/environment/cc/climate-futures/policy-highlights-financing-climate-futures.pdf
- 6 Data Provider: MSCI. Scenarios: REMIND NGFS.
- 7 Climate Action 100+, 'About Climate Action 100+'. Online at www.climateaction100.org/about
- 8 Intergovernmental Panel on Climate Change (IPCC), *Special Report: Global Warming of 1.5°C*. Online at www.ipcc.ch/sr15
- 9 UN Environment Programme (2020), *Emissions Gap Report 2020*. Online at www.unep.org/emissions-gap-report-2020
- 10 UN Race to Zero, 'Criteria'. Online at <https://climatechampions.unfccc.int/system/criteria>

Important information

This document is not a financial promotion and is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice. We strongly recommend you seek independent professional advice prior to investing.

The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money.

Any forward-looking statements are based on CCLA's current opinions, expectations and projections. CCLA undertakes no obligations to update or revise these. Actual results could differ materially from those anticipated.

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