

# Response to the UK Stewardship Code Principles

Covering the  
Reporting Year to  
End December 2020



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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.  
*The Lighthouse*, HM Prison Castle Huntly, Belpech Trust. First-Time Entrant Award for Painting.

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

# Introduction

CCLA welcomes the Financial Reporting Council's Stewardship Code 2020. 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. These cover '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.

This response has been approved by James Bevan, our Chief Investment Officer.

'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

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## 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.**

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### 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 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 superior, sustainable risk adjusted returns to our clients. We recognise that, whilst the short-term is led by fashion, long-term investment returns can only be as healthy as the communities and the environment that support markets. For this reason, we believe that good investment combines the following.

**Pushing for progress** in meeting the world's sustainability challenges, as healthy returns require a healthy future. 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 contributing towards accelerating the world's progress towards meeting the major sustainability challenges that we face we can limit risks before they negatively impact the performance of our clients' assets and the function of society.

### Re-assessing the fundamentals,

because we believe that a combination of legislation, regulation and changing societal preferences will inevitably impact negatively upon the cash flow of the most unsustainable business models.

For this reason, 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.

Investing 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.

### Our business model

CCLA is the UK's largest manager of charity investments (Charity Finance Fund Management Survey November 2020). Managing investments for charities, religious organisations and the public sector is all we do.

Based in the City of London, with an office in Edinburgh, we are largely owned by our clients' funds.

We manage over £12 billion (as at December 2020) on behalf of over 35,000 not-for-profit clients and offer a variety of different investment solutions to meet the needs of our clients. These include:

- multi-asset pooled funds, which are a suitable 'all in one' solution for most long-term charity investors
- 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
- segregated investment services for clients where, for various reasons, pooled funds are not appropriate.

Whilst our clients are UK based, we are global investors. All our funds and products are managed responsibly and in line with our clients' ethics.

### 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
- an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

During the reporting year, we have continued to resource our approach to stewardship. In addition to exercising our ownership rights by engaging at least once with all listed equity holdings in our clients' portfolios, we have undertaken significant activities to act as a catalyst for investor action addressing systemic environmental and social risks and challenges.

For example, during the year we continued to develop the 'Find It, Fix It, Prevent It' engagement programme that we launched in November 2019. This seeks to increase the effectiveness of corporate actions to fight modern slavery by conducting direct engagement with prioritised companies, working with policy makers to strengthen regulation and legislation and seeking to increase the availability of data on companies' modern slavery risk. By the end of 2020 the assets under management supporting the programme rose to over £4 trillion and direct engagement was conducted with companies and policy makers.

In addition, we built on our wider work encouraging companies to safeguard their employees' mental health to lead a collaborative engagement initiative on addressing the risks posed to staff wellbeing posed by Covid-19.

Our approach to active ownership in listed equity was awarded an A+ rating in the most recent Principles for Responsible Investment (PRI) assessment process.



**ACTIVE OWNERSHIP  
IN LISTED EQUITY**

As part of our commitment to investing in sustainable assets and opportunities all of our clients' portfolios are managed in line with our Climate Change and Investment Policy and our strong responsible investment approach. For this reason, all of our equity portfolios have a carbon footprint that is considerably below that of the MSCI World Index and better-than-benchmark corporate governance ratings (Source: CCLA and MSCI. Please see page 11 for further details).

Our approach to integrating environmental, social and governance factors into our property and listed equity investment approaches were awarded an A+ rating in the most recent PRI assessment.

In addition to our wider responsible investment approach, the majority of our clients' assets are also managed in accordance with 'values-based investment policies' that are designed to align our not-for-profit clients' portfolios with their mission. These policies set out companies and sectors in which our clients would like to avoid investment and request engagement and 'positive investment' activities. Investing in line with these policies is a key priority for CCLA and, due to our strong focus, we have not breached any client policy within the reporting period.



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**INTEGRATING  
ENVIRONMENTAL,  
SOCIAL AND  
GOVERNANCE  
FACTORS**

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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 Responsible Investment Report. This sets out all of our responsible investment policy, how we have performed against them and a progress report on all of our engagement activities.

Finally, we recognise that implementing our approach to stewardship is the responsibility of every member of staff, not just those within our Ethical and Responsible Investment team. For this reason, all of our work goes beyond our specialist, seven-person, team. For instance, during the year, we integrated sustainability into the competency assessment and performance review for all investment management staff and, through a number of dedicated 90-minute sessions, we worked with our governance boards and every CCLA employee to define our investment beliefs. This helped contribute to our strong collegiate corporate culture and our company-wide commitment to stewardship.

Due to their importance, all of our stewardship activities are prioritised and monitored by our dedicated Ethical and Responsible Investment Committee. This is attended by the Head of Ethical and Responsible Investment, the Chief Investment Officer and other members of our specialist Ethical and Responsible Investment team as required. It is chaired by CCLA's Chief Executive.

We believe that this approach has been effective in discharging our responsibilities to our clients.

## 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
- 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.

All of CCLA's stewardship activity is conducted in line with agreed policies and processes. These include the following:

- Our [Engagement Policy](#), which sets out our approach to meeting the world's sustainability challenges. This approach 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.

### ETHICAL AND RESPONSIBLE INVESTMENT DATA POINTS

Category	Data point	Comment
Ethical screening	MSCI Business Involvement Screening Research	This is a comprehensive suite of data identifying companies' involvement in activities restricted by our clients.
	Sustainalytics	Additional ethical screening data, covering companies' involvement in controversial weapons.
	FTSE ESG Research	Granular ESG Research reviewing companies' ESG policies and processes.
International norms	MSCI Controversies	MSCI Controversies reviews 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.
Climate change and investment	MSCI Carbon Portfolio Analytics	Data to identify companies' carbon intensity and to calculate the Scope One and Two Carbon Footprint of CCLA portfolios.
	Transition Pathway Initiative	Data used to inform CCLA's assessment of electrical utility and energy companies' position against the Paris Agreement.
Corporate governance	Credit Suisse Holt	Data used as part of CCLA's bespoke corporate governance rating system.
	MSCI Governance Metrics	Data used as part of CCLA's bespoke corporate governance rating system.
	ISS	Proxy voting research against CCLA's bespoke voting policy.
Sustainability	MSCI ESG Ratings	Comprehensive ESG data covering a wide range of ESG issues that are considered in CCLA's investment approach.

- 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 clients' ethical investment policies. These are incorporated in the scheme particulars of our pooled funds and identify how we tailor the product to meet our clients' values-based needs.

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

Recognising the importance of our stewardship programme, all of our responsible investment policies, processes and activities are approved and overseen by a dedicated Ethical and Responsible Investment Committee. This is a sub-committee of CCLA's Executive Committee. It meets twice per year and is attended by the Head of Ethical and Responsible Investment, the Chief Investment Officer and other personnel as required. It is chaired by our Chief Executive. In addition, quarterly responsible investment reports are provided to the trustees of our church and charity investment funds and CCLA's board and Executive Committee.

All of our policies relating to the allocation of capital are supported by dedicated data streams, that are sourced from third parties and/or developed on a bespoke basis in house, which are integrated into our order management system. This prevents the purchase of any security that would violate either a client rule or CCLA's approach to integrating sustainability into our investment process.

Our proxy voting and approach to integrating our clients' values into their portfolios are reviewed by CCLA's dedicated risk and oversight team and are also subject to internal audit. Over

the next twelve months we will be working to increase the scope of this activity to cover all of our responsible investment work.

We believe that stewardship is the responsibility of all of our staff, however our work is led by a specialist Ethical and Responsible Investment team. This is comprised of seven sustainability experts, with differing educational backgrounds, a variety of academic and professional qualifications including PhDs and CISI certificates and 43% gender diversity. Together, at the end of the reporting year, the team members have combined experience in dedicated financial services stewardship roles of over 63 years.

The Ethical and Responsible Investment team is integrated into our investment management structure and is led by the Head of Ethical and Responsible Investment who reports to our Chief Investment Officer. They are supported by a wide variety of external data providers as per the table below.

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

Stewardship is included into the competency assessments of all investment management staff. However, 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 culture and our meeting our clients' objectives.

Our responsible investment strategy and governance was awarded an A+ rating in the most recent PRI Assessment.



**RESPONSIBLE  
INVESTMENT  
STRATEGY AND  
GOVERNANCE**

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## Principle 3

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

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#### Context

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

All activities at CCLA are subject to our company-wide Conflicts of Interests Policy. This notes 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. For this reason, we have established an approach to ensure CCLA, and its staff members, act in the best interests of its funds, its investors and/or its potential investors. This approach includes:

- 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.

In addition to our general approach, we recognise that stewardship activities can give rise to some specific actual or potential conflicts of interest that are not covered by this approach. For this reason, we have established specialist policies and oversight for all stewardship activity that are included in our active ownership policy.

All of our stewardship work is delivered in the interest of all of our clients and we actively seek to ensure that it does not unduly prioritise the needs of any single client group and is not influenced by the interests of any CCLA employee, shareholder or any other stakeholder.

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

In addition, our stewardship work is prioritised and overseen by the Ethical and Responsible 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. Whilst we have not identified any specific conflicts in the reporting period, we are aware that potential conflicts can include, but are not limited to, the following.

- Voting upon 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 second member of the Ethical and Responsible Investment team.
- CCLA portfolios holding the shares of the different companies involved in proposed merger and acquisition activity. This is unlikely as CCLA only manages a single listed equity strategy. However, we are able to 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 Ethical and Responsible Investment Committee.

By implementing the governance framework, identified above, we are confident that we have a robust approach to managing these conflicts and ensuring that they do not negatively impact upon our clients and their beneficiaries.

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## Principle 4

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

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#### 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, despite their impact, the investment industry has a poor track record on addressing systemic risks. For this reason, we seek to be a catalyst for positive systemic change and have a long track record on developing engagement initiatives that focus investor action on risks that have not been adequately addressed by the market. We also recognise that regulation and legislation are key tools in managing systemic sustainability risks. For this reason, 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 the Ethical and Responsible Investment Committee and seeks to:

- **Identify systemic risks and evaluate the extent to which these pose a threat to the value of our clients' portfolios.** This is delivered through an informal process that includes reviewing materials such as the World Economic Forum's annual Risks Report and our clients' responsible investment priorities as we believe that these can act as early indicator as to future issues of interest.
- **Review existing investor action and CCLA's existing knowledge and expertise of the issue.** We recognise that the investment industry has increasingly focussed on responsible investment and, for this reason, want CCLA's activity to be additive, rather than replicative, to existing efforts. For this reason, before prioritising an issue we consider the extent to which it would be possible for us to act as a catalyst for further action.

On the back of this assessment, we prioritise a small number of issues for significant action. During the reporting year we have sought to work systemically to address challenges by climate change, promote better standards of public health and work to increase the effectiveness of corporate actions on modern slavery.

In regard to climate change, we believe that unaddressed, anthropogenic global warming poses a systemic risk to the planet, our communities and the functioning of economic markets. For this reason, seeking to accelerate the transition to a net zero economy is a key priority. Our approach to addressing this systemic threat incorporates the following.

- **Public policy engagement**, to help support the creation of regulatory frameworks that will accelerate the transition. During the past 12 months, our focus has been upon supporting the UK and Canadian governments in the delivery of the Powering Past Coal Alliance. This seeks to facilitate the phasing out of unabated coal fired electricity generation from the world's energy mix. CCLA helped to create the initiative's 'Finance Principles' which are now supported by 16 investors including Aberdeen Standard, Legal and General and the Church of England National Investing Bodies (source: UK Government, Powering Past Coal Alliance).
- **Engaging directly with our investee companies**, to encourage them to minimise their negative climate footprint and manage climate-related risks to their business. To increase its effectiveness, the majority of our direct climate engagement has been conducted through the collaborative Climate Action 100+ initiative, that is supported by investors with combined investment assets of over \$47trillion. Recognising CCLA's specialism in climate engagement, we lead (or co-lead) engagement with a number of companies, including Rio Tinto, Duke Energy and Unilever on behalf of the wider initiative.

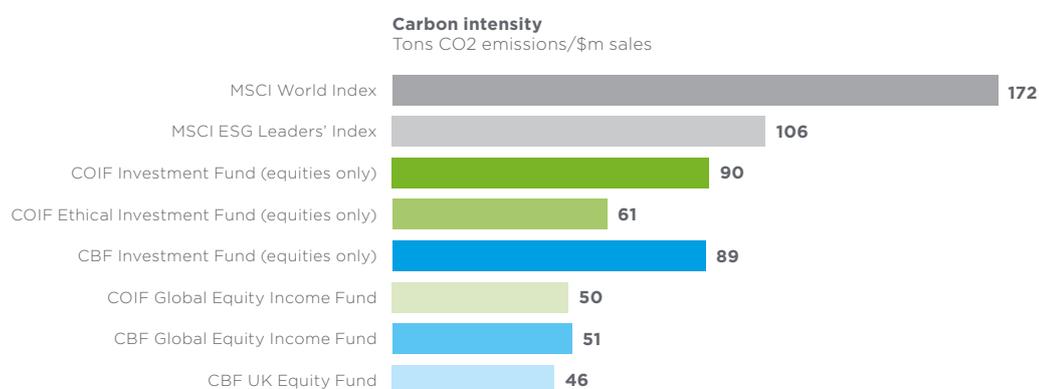
- **Altering our investment approach**, to improve the resilience of our clients' portfolios. We recognise that, whilst the majority of climate change related impacts will affect the performance of markets as a whole, some sectors and companies will be disproportionately affected. For this reason, our portfolios are managed to low relative carbon footprints and have – due to our concerns about the valuations of the companies in light of the energy transition – currently zero direct exposure to companies that focus on 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. For this reason, we will continue to prioritise this aspect of our work and will seek new ways that we could contribute to accelerating climate action.

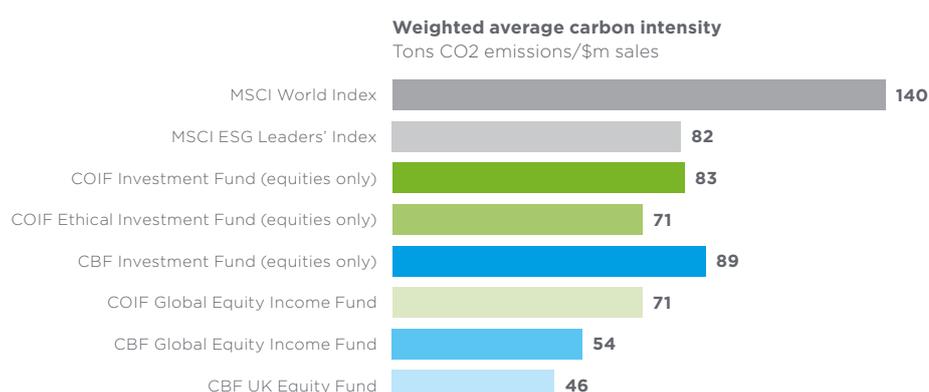
Whilst our actions on climate change have had a clear positive impact and increased the resilience of our portfolio to the low carbon transition, we remain concerned that business as usual will see unsustainable temperature rises. For this reason, we remain concerned and will continually strive to improve the effectiveness of our contribution to this global effort.

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

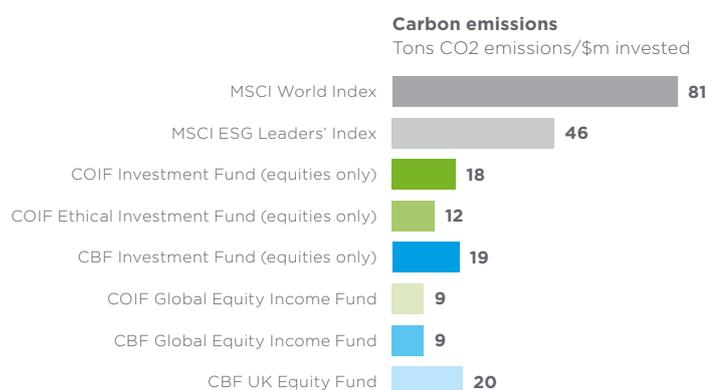
### How efficient is my portfolio in terms of carbon emissions per unit of output?



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



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



Source: MSCI ESG Carbon Footprint Calculator, 31 December 2020. Scope One and Two emissions.

## THE CARBON FOOTPRINT OF 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. In order to add to the resilience of our portfolios, we routinely monitor their carbon footprints and have set a maximum carbon ceiling. Due to data limitations, this currently only covers the Scope One and Two footprints of our listed equity holdings.

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## Principle 5

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

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### 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 ensure that it is as effective as possible.

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

This process led to the creation of the 'Find It, Fix It, Prevent It' modern slavery initiative, for example, which was preceded by engagement with companies on their response to the UK Modern Slavery Act. Whilst the initial engagement led to an improvement in companies' anti-slavery policies there was limited evidence that it was increasing the effectiveness of anti-modern slavery efforts. For this reason, the 'Find It Fix It Prevent It' programme has been broadened out to increase the amount of investor support and also tackle problems caused by a lack of data and regulation.

Key parts of our active ownership work, and all of the reports that we issue, are reviewed by CCLA's Compliance team and the investment area including the Ethical and Responsible Investment team is subject to a periodic internal audit review. This ensures that our stewardship reporting is fair, balanced and understandable. To provide further reassurance, we employed, specialist consultancy, Chronos Sustainability to provide an external review of our annual PRI assessment process submission. This allows us to identify further areas that require improvement and development.

# 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 Survey November 2020). Managing investments for charities, religious organisations and the public sector is all we do. We currently manage over £12 billion on behalf of over 35,000 different not-for-profit organisations.

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

As charities, the majority of our clients have long-term time horizons for their risk assets, so we manage their funds to maximise long-term invested value. This means that we analyse investee companies over a long-term time period and have low portfolio turnover – our average holding period for a listed equity in one of our charity pooled funds is approximately five years.

#### ASSETS UNDER MANAGEMENT

Asset class	(£ million)
Equities	5,928
United Kingdom	749
Europe (developed)	1,086
Europe (other)	-
North America	3,319
Other Americas	-
Japan	87
Asia Pacific ex Japan	625
Other countries	62
Private equity and other	155
Infrastructure and operating assets	626
Property	1,765
Contractual and other income	225
Fixed interest	226
Cash and near cash	3,582
<b>Total</b>	<b>12,506</b>

Source: CCLA, as at 31 December 2020.

We also recognise that some of our clients are permanently endowed and will, therefore, face a number of risks that are not 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 risks, before they affect the value of our clients' assets.

### 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 on behalf of our clients we recognise that we have a responsibility to ensure their 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.

In order to ensure that our charity clients' assets are managed in line with their values we invite all of our pooled fund charity clients to participate in a thorough consultation process every three years. We will be conducting this process in 2021 and, for the first time, will invite our segregated and Church of England clients to participate in the exercise. This approach supplements our routine client relationship activity and helps us to identify their values-based investment requirements, which are subsequently developed into investment rules, 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 in all aspects of our investment process.

This approach is led by our specialist Ethical and Responsible Investment team and 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 all of our sustainable investment work. We publish our [proxy voting record and key engagement highlights](#) on our website every quarter. We also produce a detailed, but easily accessible, annual [Responsible Investment Report](#). This incorporates all aspects of our work, including fund composition, our stewardship policies and processes and a progress report for all ongoing engagements

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## Principle 7

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

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### 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 will inevitably impact negatively on the cash flow of the most unsustainable business models. For this reason, 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, enables us to deliver superior long-term risk adjusted returns to our clients.

Prior to purchase, we assess companies' environmental, social and governance (ESG) risks in conjunction with their financial position. This approach applies to all listed equity assets, 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 in their governance structure 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 annually review 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.** All potential investee companies are reviewed regularly against 16 further sustainability factors. These include water use, biodiversity, health and safety and anti-corruption and bribery with the relative importance of these factors determined on an industry-by-industry basis against our bespoke sustainability materiality map.

Where we identify 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 removed from our investment universe.

Following purchase, monitoring all of our investee companies is a routine part of CCLA's investment approach. Our specialist ethical and responsible team continually monitors investee companies' approach to managing ESG risk. This is conducted by regularly analysing data and ratings that are provided to us by third parties as well as information derived through our routine contact with companies. Where our process identifies corporate governance structures that fall below established standards (such as the UK Corporate Governance Code, or equivalents in non-UK markets), poor policies and procedures for managing other ESG risks, or falling standards we use our active ownership expertise to push for progress and integrate the findings into our wider investment process.

Recognising the different nature of the asset class, we have developed a specialist process for integrating ESG factors into our property investment process. This includes a detailed due-diligence process prior to purchasing the asset and an ongoing programme of engagement and refurbishment to improve its sustainability.

### 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.

Responsible investment is at the centre of our investment process, so we implement the same approach to considering extra-financial and other ESG risks across all CCLA-managed portfolios, and have developed specialist approaches in other asset classes included property and money market funds.

All CCLA 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, all CCLA equity portfolios display common characteristics such as low Scope One and Two carbon footprints and better-than-benchmark corporate governance ratings (see page 11 for the carbon footprint of our portfolios).

Over the next year we will be working to produce a public portfolio ESG dashboard to better display the impact of our ESG integration approach. In addition to our 'house' approach, the majority of our clients have adopted additional 'values-based' investment requirements. Reflecting the different priorities of our client base these policies vary from fund to fund. These range from the CBF Church of England Investment Funds that follow the guidance of the Church of England's Ethical Investment Advisory Group to the COIF Charities Investment Fund that adopts fewer ethical screens as selected by its unitholders.

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. As stewardship is a routine part of our investment process, all engagement meetings are conducted in partnership between portfolio managers, analysts and our sustainability specialists. In addition, response to engagement is shared in our monthly ESG meeting (attended by senior members of the investment management team) and at the formal Ethical and Responsible Investment Committee.

In extremis, poor responses to engagement can, and have, led to divestment or reducing the weight of a holding. For example, during the year we reduced our holding in Tencent, a Chinese social media company, due to political uncertainty and concerns regarding their approach to respecting human rights. Our engagement with the company on these matters continues.

We recognise that, as many of our clients are permanently endowed, their term 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 or the value of our clients' investments.

A+

**INCORPORATING  
ESG FACTORS  
INTO INVESTMENT  
DECISIONS**

## PRI EVALUATION

The PRI report evaluates signatories at how they are incorporating ESG factors into investment decisions. CCLA was awarded A+ across all categories.

### Strategy and governance

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

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

### Incorporation

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

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

### Active ownership

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

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

### Property

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

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

Source: PRI Assessment Report 2020

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## Principle 8

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

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#### 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.

As stewardship is at the centre of our investment process, we conduct the majority of our activities directly and do not use external engagement providers. We do, however, use third-party data providers to guide and inform our work.

Our sustainability data providers include ISS, FTSE, MSCI, Credit Suisse and Sustainalytics. We routinely review all of the data provided to us and engage directly with our providers when we identify errors within their provision. To ensure that we are benefiting from the best possible data, we meet our main data providers at least twice per year to discuss any issues that we have identified. In addition, we keep all of our providers under constant review and formally re-tender for their services at least every three years.

Recognising the limitation of existing data sets on CCLA priority issues, we have also commissioned an external partner, Chronos Sustainability, to co-deliver an innovative benchmark, assessing companies approaches to protecting employees' mental health and wellbeing. It is our hope that this programme will facilitate other investors engaging on this important topic.

We are also currently working with our data providers to develop a comprehensive response to the requirements set by the EU Sustainable Finance Disclosure Regime.

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## Principle 9

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

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#### 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
- how engagement has differed for funds, assets or geographies.

We recognise 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 any asset where we have specific concerns about strategy, capital structure, governance or the potential for negative environmental or social impact. Our approach is the same irrespective of the company's sector or geography 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. However, 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.

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#### OUR HIGHEST ENGAGEMENT PRIORITIES IN 2020

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Addressing corporate governance concerns at, French luxury goods company, LVMH and, AIM-listed language support services company, RWS Holdings. On the back of engagement both companies have taken significant steps to reform their audit committees.

- Accelerating the transition to the low carbon economy, through active participation (or leading) Climate Action 100+ engagement dialogues with Royal Dutch Shell, Total and Rio Tinto. We have since divested these holdings in our major funds.
  - Responding to an alleged breach of the UN Global Compact by Novartis which is now considered to be settled.
-

In total, across all of our engagement programmes, that are conducted by us for either CCLA, our collaborative engagement partners, or the Church Investors Group (to whom we provide the Secretariat), we have engaged with 470 companies over the reporting period. Of these we consider that our engagement met our expectations on 80% of occasions.

Our approach includes direct and collaborative engagement with issuers:

- [Routine proxy voting](#), with all holdings. Voting is conducted in line with our bespoke 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 intentions. 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 we invest in.
- [In-person meetings](#) with management and board members and site visits. Whilst normally a key part of our approach this has been challenging over the past 12 months within the context of the Covid-19 pandemic.
- [Shareholder resolutions and attending AGMs](#) We were the lead filer for one shareholder resolution during the period.

In all cases 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 work with our third-party managing agent to develop action plans for reducing the environmental and social footprints of our key assets. This work has also been disrupted in 2020 due to Covid-19. As money market funds make up a significant portion of our assets under management, we have developed approach to assessing and engaging with our counterparties. Currently we do not lend to one possible counterparty, due to sustainability concerns, and have entered into engagement discussions on sustainability factors with 10% of lenders list.

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

Further details of our approach to engagement are available in our dedicated [Engagement Policy](#). This is available at.

Our approach to active ownership in listed equity received an A+ rating in the most recent PRI Assessment Exercise.



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**ACTIVE OWNERSHIP  
IN LISTED EQUITY**

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## Principle 10

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

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#### **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 seek to build, or participate in, the most effective engagement coalition to achieve our goal.

This ranges from the Climate Action 100+, that is backed by over \$47 trillion of assets, to the £20 billion Church Investors Group, with whom we partnered on an engagement programme that encouraged companies to respond to the Workforce Disclosure Initiative. We seek to take a leading role in all of the collaborative engagements in which we participate and only work with other investors who are able to dedicate equivalent resources and share our ethos on the need for engagement to deliver change. The success, or otherwise, of collaborative engagements is assessed by our Ethical and Responsible Investment Committee.

By way of example, we currently lead, or have led, engagement with a number of companies on behalf of the Climate Action 100+ initiative and the outcomes of these dialogues helped inform our decision to exit our remaining holdings in oil and gas majors due to concerns about their ability to deliver strong and sustainable investment returns.

Recognising our aim to act as a catalyst for investor action on underserved issues, we seek to create our own collaborative engagement initiatives. During the year we built an engagement coalition, supported by investors with over £2 trillion in assets under management, to write to all FTSE 100 constituents about their approach to protecting their employees' wellbeing and mental health. This called upon companies to support their employees through the Covid-19 disrupted period by taking steps, such as altering the composition of their roles to reflect the wider pressures (such as home schooling and childcare) being placed upon them and changing performance criteria. Whilst we do not believe that this engagement is relevant to specific buy/sell decisions, we have been disappointed with the quality of responses received and, in building a corporate mental health benchmark, we are developing a new approach to encouraging companies to build formal mental health and wellbeing processes.

We also 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.

We welcome approaches to join other collaborative initiatives. Potential collaborators should contact Amy Browne, Stewardship Lead ([amy.browne@ccla.co.uk](mailto:amy.browne@ccla.co.uk)) in the first instance.

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## Principle 11

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

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#### **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 on a risk scale,

which can escalate to reflect increased concerns. Our current practice ranges from Level One, routine voting, to Level Four where we divest automatically if no progress is achieved in a limited time period. These levels are set by the Ethical and Responsible Investment Committee, based on the advice of our sustainability specialists.

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. 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. Prior to progress on the composition of their audit committee, continued investment in RWS Holdings was subject to this process.

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

# Exercising rights and responsibilities

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## Principle 12

### **Signatories actively exercise their rights and responsibilities.**

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#### **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 vote against management on issues such as executive remuneration, board composition [including gender diversity and where we have concerns regarding a directors' 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. As detailed in our [voting policy](#) 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, all of our voting is administered by a third-party partner (currently ISS) who work to a bespoke proxy voting policy that we have developed with like-minded investors. To ensure that they are appropriate we review all voting recommendations made to us prior to submitting our intention. We also regularly review data provided by ISS to ensure that we are using all of our possible voting positions.

Whilst 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 endeavour's basis. During the reporting year we have not received any client requests to vote in a different way to our standard policy.

### 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 2,648 resolutions at 194 meetings held by 171 companies. This meant that we instructed and received confirmation of 96% of all ballots. 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.

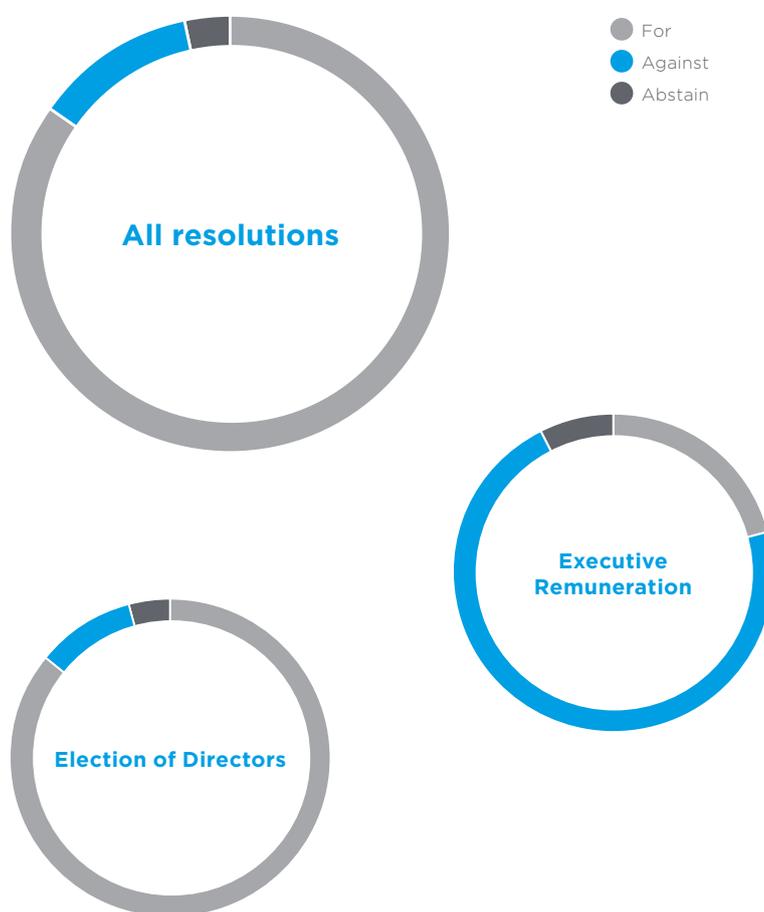
We seek to be transparent about all of our voting activity and publish a rolling 12-month overview every quarter on our website. The report provides a full overview of our rationale for any votes either against management proposals or outside our standard voting policy, together with all shareholder resolutions.

During the year we did not support 15% of resolutions proposed by management. In contrast, ISS, our vote provider did not support 4% of the same resolutions. The most common reasons for us not supporting management include:

- **Inappropriate, excessive or poorly aligned remuneration.** During the reporting period we did not support 82% of companies' proposed executive remuneration policy or report votes. This reflects our systemic concern about inequality in addition to more conventional concerns about the structure and/or incentives of the pay plans.
- **Not supporting the election of directors.** Unlike many other investors we seek to hold directors accountable for the decisions of their committees. This means that we do not support the re-election of the chair of the audit committee if we are concerned about the independence of the auditor and/or the chair, or all members, of the nomination committee if the board does not display adequate gender diversity.
- **Not approving the annual report and accounts.** We do not support the approval of the annual report and accounts at companies where we have concerns related to strategy (particularly related to the transition to a low carbon economy) and or disclosure of sustainability related data (particularly related to modern slavery policies).

All of our voting was administered by our third-party provider in line with our bespoke voting guidelines. We reviewed 100% of all 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.

## PROXY VOTING YEAR IN REVIEW



### Rationale for votes against Directors re-election

Executive pay	35%
Gender diversity	22%
Audit	17%
Board structure	24%
Other	2%

Source: CCLA, as at 31 December 2020.

## Disclosures

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.

CCLA Investment Management Limited (a company registered in England and Wales with company number 2183088) and CCLA Fund Managers Limited (a company registered in England and Wales with company number 8735639), whose registered address is Senator House, 85 Queen Victoria Street, London EC4V 4ET, are authorised and regulated by the Financial Conduct Authority.

## WANT TO KNOW MORE?

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# CCLA

BECAUSE GOOD IS BETTER