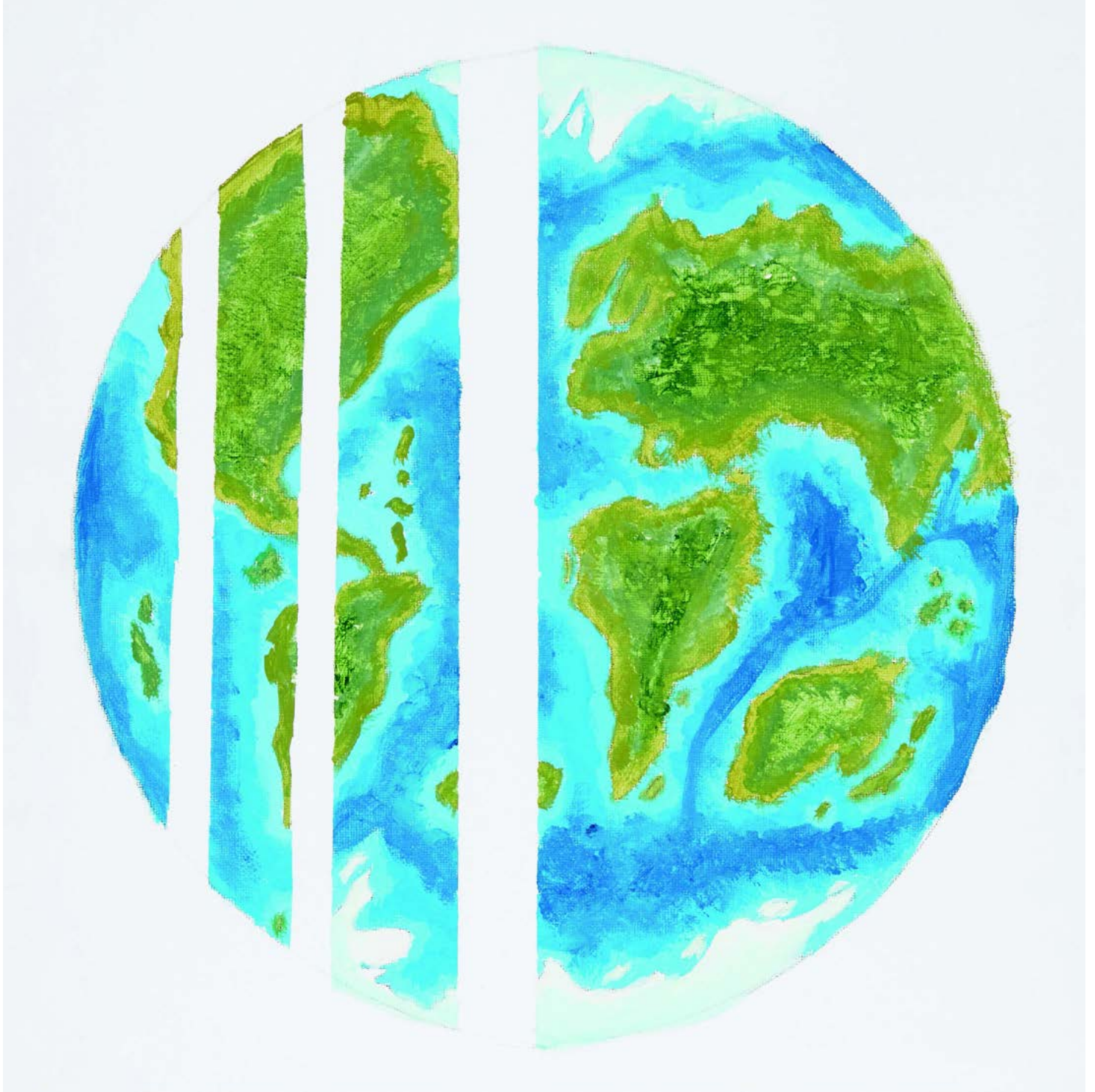


A climate for Good Investment



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

Our climate pledge

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

We have long considered climate change to be the largest threat to our environment, our communities and, consequently, to the success of investment markets. For this reason, we are committed to accelerating the transition to a net-zero emissions economy and taking steps to protect the value of our clients' portfolios during the transition.

We achieve this through the following principles:

Act

We act to increase the pace of climate action by leading impactful engagements with the companies in which we invest and push policymakers for progressive regulation and legislation.

Assess

We assess companies' position against the energy transition as part of our investment process and avoid those that do the most harm.

Align

We align our portfolios with our clients' requirements and disclose information about our approach to managing the risks and opportunities associated with climate change.

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

A history of climate action

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

We recognise that we cannot do this on our own and we have a long track record of channelling our

position as an investment manager into leading meaningful action across the investment community.

Since 2007, we have forged a clear pathway to combat climate change consistently pushing for progress by taking necessary steps to realising positive climate impact.



2007

Early signatory to UN Principles for Responsible Investment



2012

Launches Aiming for A shareholder advocacy campaign, which goes on to inspire CA100+



2015

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

2010

Start climate action pathway with carbon disclosure watch list

2013

The COIF Charities Ethical Fund restricts investment in thermal coal

CCLA becomes Cornerstone investors in the Bluefield Solar Income Fund



2016

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



GLENCORE



While ‘corporate sustainability’ has never been higher profile, we remain concerned that the world is not acting fast enough to meet the challenges we collectively face.



2017

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



2019

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

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



2020

CCLA sells remaining direct holdings in oil and gas extraction companies

Seed investors of the Clean Growth Fund with the UK government



2021

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

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

CCLA pledges to achieve net-zero by 2050

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

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



Founding signatory of IIGCC Net Zero Asset Managers initiative

NET ZERO ASSET MANAGERS INITIATIVE



NextEra Energy responds to engagement by increasing climate disclosures



Why climate change matters for investors

If unmitigated, climate change is one of the largest threats to our planet, ecosystems and communities. Because of this it is also a material threat to the functioning of investment markets and shareholder value. This is a critical issue for investors and for this reason we have long supported the effort to limit global temperatures to substantially below 2 degrees above pre-industrial levels.

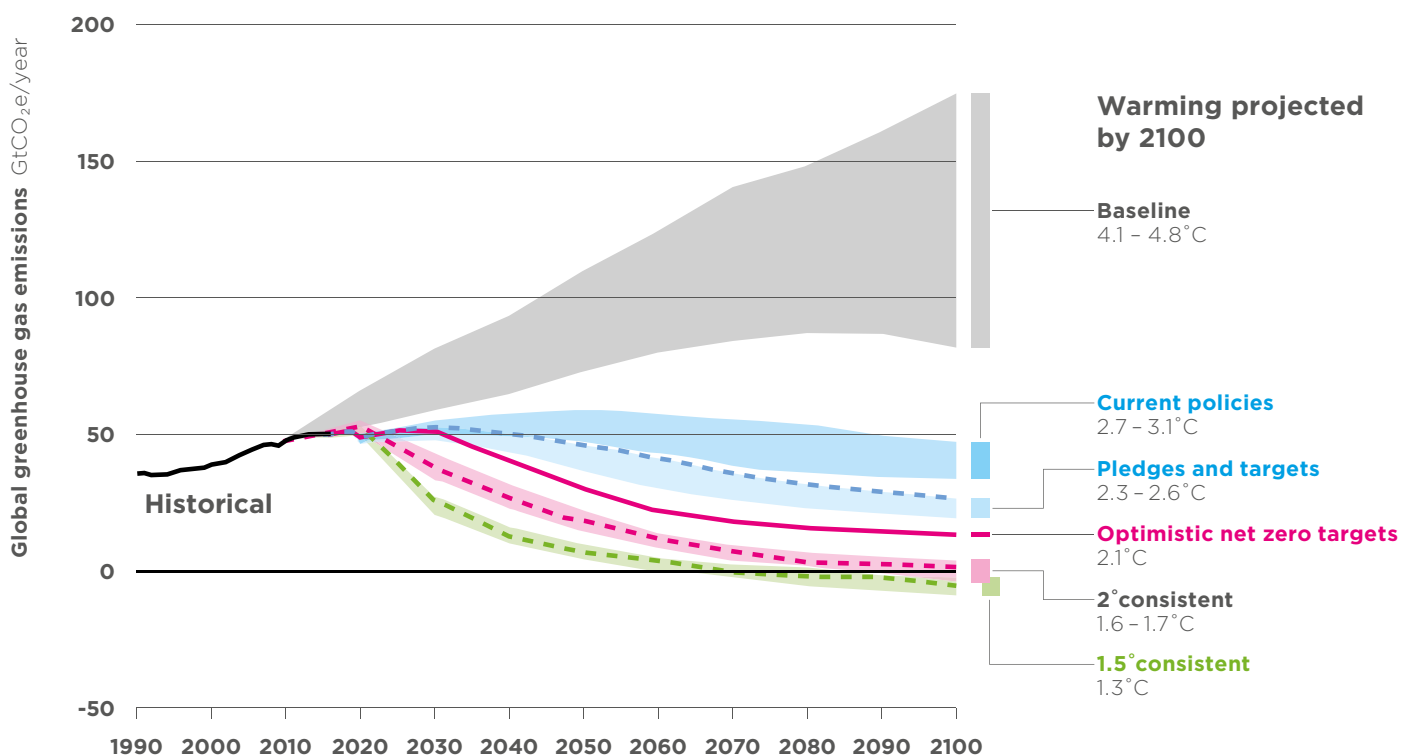
While 'corporate sustainability' has never been higher profile, we remain concerned that the world is not acting fast enough to meet the challenges we collectively face.

Current international policies are expected to only limit temperature rises to 2.7–3.1 degrees Celsius above pre-industrial levels. Despite significant progress, this is far above the desire to limit temperature rises to 1.5 degrees as set out in the 2015 Paris Climate Change

Agreement and, as per the stark warnings made by the recent Inter-Governmental Panel on Climate Change's report, if unmitigated, will continue to lead to increased poverty in many low-income countries, erratic weather patterns and accelerated biodiversity loss.

In addition to affecting our livelihoods, we are conscious that a failure to act on climate issues will lead to market instability and poor outcomes for investors over the long-term. For instance, loss of biodiversity, natural resource crises are all listed by the World Economic Forum as key global risks, that are impacted by the physical effects of climate change, for companies and the functioning of the global economy. For this reason, we believe that investors have a fiduciary duty to push for accelerated climate action and begin to take steps to protect their portfolios from the financial risks it will cause.

Projected levels of global temperature rises



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

Target: net-zero emissions

As a founding member of the Net Zero Asset Managers initiative, CCLA has committed to seek to achieve net-zero emissions portfolios for all our assets under management no later than 2050.

To ensure the best term outcome for our clients, the planet, and our communities we will do this in two ways.

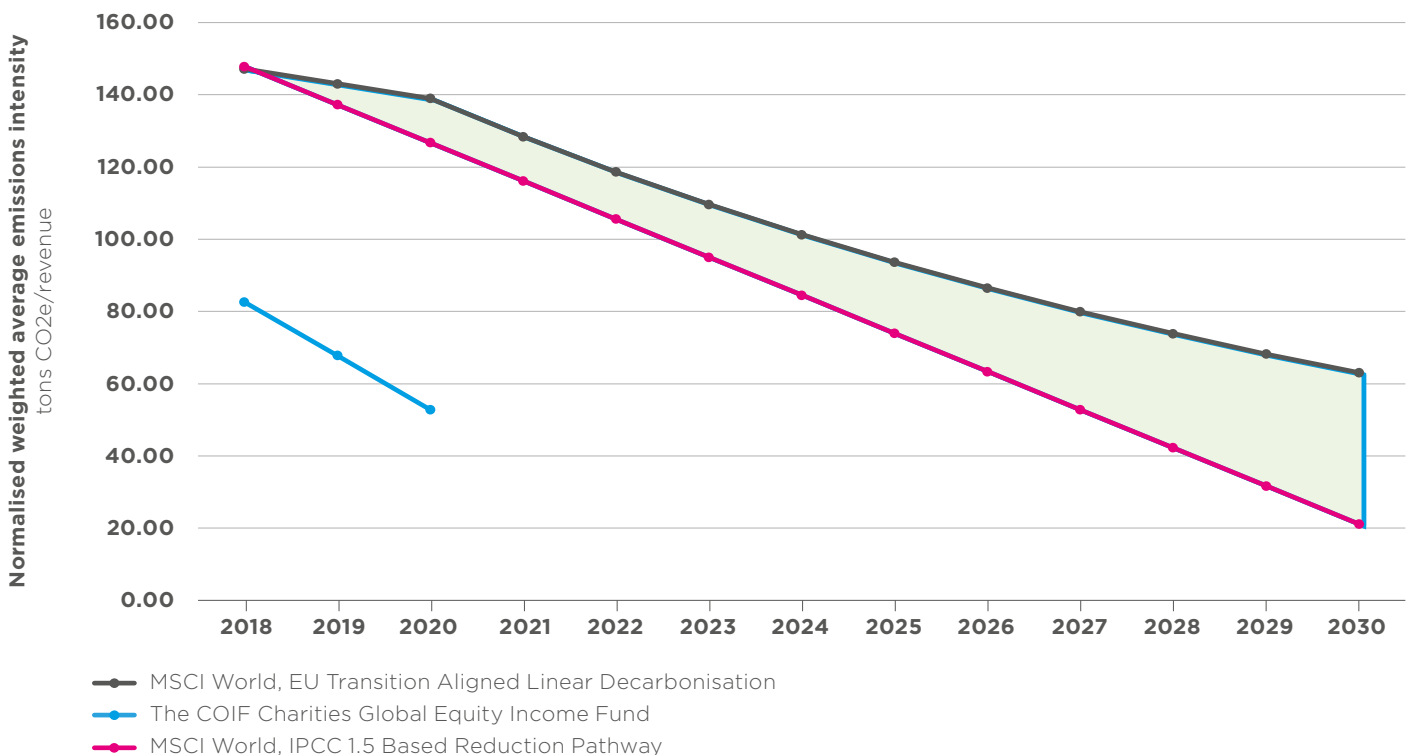
1. Over the long-term, it is important that net-zero is achieved through real-world emissions reductions. This is the only way to stop the negative impact of climate change and requires us to increase the pace of the world's decarbonisation. At CCLA, we do this through engagement with policymakers by pushing for more meaningful regulatory action. We lead engagement with companies to encourage them to accelerate action on emissions reductions. Where possible, we put our clients' capital to work by investing in low carbon

solutions and technology. We call this approach 'actions, not transactions'.

2. 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 the companies that are the most damaging to the environment and assess the alignment of others with the goals of the Paris Climate Change Agreement before adding them to our portfolios.

To fit with this approach, we have chosen to set our decarbonisation targets through a decreasing maximum carbon footprint based upon the MSCI World Index. This approach ensures that we are not taking on significant short-term regulatory risk, while allowing us freedom to invest in companies and use our active ownership expertise to drive change. The COIF

Decarbonisation targets



Source: IPCC, MSCI and CCLA, 30 September 2021.

Charities Global Equity Income Fund, like all CCLA equity portfolios, is already well below the target. We display this fund as it is made up of only equities and aligns closely with the equity holdings in our multi-asset funds.

Informed by the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming 1.5 Degrees Celsius and the UN Environment Programme, the above chart shows that the COIF Charities Global Equity Income Fund has decreased year on year. This is consistent with the aggregate decarbonisation rate required to limit temperature rises to 1.5 degrees above pre-industrial levels. The decreasing ceiling of emissions is initially based on the 2018 emissions of the MSCI World Index and will decrease year on year to reflect two aligned decarbonisation pathways, of which CCLA equity portfolios will never breach the lower.

We are aware that the science of setting climate targets that focus on real world emissions reductions is a complex and evolving area. With this in mind, we continually monitor the best available science and methodology for setting these targets. We expect that over time, our targets will evolve and improve to reflect the developing field. As part of this work, we hold close relationships with investor initiatives such as the IIGCC, where we co-lead the Portfolio Target Setting Working Group, to develop guidance and best practice.

Next steps

Over the next 12 months we will seek to develop decarbonisation pathways for our commercial property assets.

We lead engagement with companies to encourage them to accelerate action on emissions reductions. Where possible, we put our clients' capital to work by investing in low carbon solutions and technology. We call this approach 'actions, not transactions'.

Engagement: doing better for the environment

While it is important to avoid companies that face the most significant climate risks, we believe that working with businesses and policymakers through meaningful and persistent dialogue is more likely to drive change than building portfolios that only invest in climate leaders.

By setting targets and working with companies to improve the sustainability of their processes – year on year – we are more likely to achieve demonstrable, real-world change. This requires us to be ambitious in our asks of companies. Similarly, by working with policymakers, we can encourage meaningful climate-related legislation that impacts upon the whole of the market. In contrast, buying an existing climate leader on listed markets does not provide capital to fund new activity, it solely transfers the ownership of the company.

For these reasons, pushing for change is the core component of our approach to achieving net-zero emissions.

Corporate engagement: pushing for change

Engagement with the businesses in which we invest continues to be at the centre of our approach to combatting, and managing the financial risks associated with, climate change.

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).

Most of our corporate engagement is conducted through the Climate Action 100+ initiative. This is a collaborative engagement initiative, coordinated by five different networks including the UN-backed Principles for Responsible Investment, that is supported by 615 investors with collective assets of over \$55 trillion. This makes it a very powerful force for change.

Due to our long-standing track record of leading successful climate engagements, we lead and participate in a number of dialogues with companies on behalf of the programme. This includes Duke Energy, where CCLA-led engagement encouraged the company to set their first net-zero emissions target¹ in 2019 and Unilever, where we led the call for the company to put their climate strategy to the shareholder vote earlier this year. We currently lead, or participate in, Climate Action 100+ dialogues for nine different companies and, for relevant companies, we have a particular focus on accelerating the phase out of coal.

Outside of Climate Action 100+ we have focused on the financial services sector. This has included looking at the impact of the activities that they lend money to and the vulnerability of their balance sheets to climate change. Given the systemic impact of their activities, our engagement with banks has also included requests for them to align their activities with the goals of the Paris Climate Change Agreement.

¹ Duke Energy (September 2021), 'Duke Energy aims to achieve net-zero carbon emissions by 2050.' Online at <https://news.duke-energy.com/releases/duke-energy-aims-to-achieve-net-zero-carbon-emissions-by-2050>

Managing the risks and opportunities associated with climate change is a key focus of our proxy voting and AGM related activity. One example is that, due to concerns about the company's climate governance, we filed a shareholder resolution at NextEra Energy in 2020. This was withdrawn upon the receipt of a commitment that the company would complete the annual survey from the Carbon Disclosure Project (CDP). The CDP helps companies disclose their environmental impact in order to make environmental reporting and risk management a business norm, driving disclosure, insight, and action towards a sustainable economy.

On a more routine basis, climate change is a consideration in our AGM voting. This includes:

- voting against the re-election of the auditors where climate risk poses a long-term threat to the company's viability and the audit report does not set out a plan to address this

- voting against the annual report and accounts, and the re-election of the audit committee chair where accounting assumptions are inconsistent with the company's climate risk reporting
- voting against the annual report and accounts where Climate Action 100+ companies do not disclose their climate-related lobbying activity
- voting against the re-election of the company chair at Climate Action 100+ companies where we have concerns about their approach to climate change
- supporting votes that give investors an annual 'Say on Climate'.

As per our wider approach to voting, we inform and seek to engage with companies about our concerns prior to issuing a negative vote and disclose all our voting activity on our website.

GETTING A 'SAY ON CLIMATE' AT UNILEVER



Unilever

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

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

shareholders have the right to vote on the remuneration of executives. When a company introduces a 'Say on Climate' vote, shareholders vote on the quality and scope of the company's climate transition plan and climate disclosures. For companies, a 'Say on Climate' vote allows them to showcase leadership and verify shareholder support for their plans.

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

We are now working with Unilever to help them deliver:

- an enhanced, detailed scenario analysis, to identify business risks from climate change events a renewed net-zero commitment, with credible interim targets to 2039
- active participation in Climate Action 100+ sector transition workstreams to allow Unilever's peers to learn from its example
- improved performance on the CA100+ Net Zero Benchmark, released earlier this year. During the release, Unilever constructively engaged with future developments for the benchmark.

Doing better

Over the next 12 months, we will continue to vote on climate related issues and further emphasise our climate-related dialogues with food and beverage companies (in line with the new Climate Action 100+ Paris Aligned expectations²), and our dialogue with the financial services companies.

Public policy: pushing for regulatory change

Regulation and legislation will play a vital role in accelerating the transition to net-zero. For this reason, we seek to be an active voice pushing for increased action. This is particularly important in the run up to the UK hosting the UN Framework Convention on Climate Change's COP26 Conference later this year.

As an investor we seek to influence policy directly, through our own direct activities, and as a participant, member, and supporter of a number of industry groups.

Directly, we have worked with the UK and Canadian governments to develop the Powering Past Coal Alliance Finance Principles, as reflected in the UK government's Green Finance Strategy. The principles bring investors together to cease new investments in coal-fired power, phase out existing coal capacity and boost investments in clean energy. They are now supported by 22 investors globally.

As a member of the Institutional Investors Group on Climate Change, the UK Sustainable Investment and Finance Association and the Financing a Just Transition Alliance, we support a number of collective calls for action.

Looking forwards, we will continue our direct and indirect policy activity and take further action to support the charitable sector in their efforts to move towards net-zero emissions. This will include the promotion of activity curated and convened by the Charity Finance Group.

SUPPORTING THE JUST TRANSITION

Addressing climate change is often regarded as an environmental issue. However, the transition to a net-zero emission economy will have profound impact upon our society. One area that is likely to be heavily impacted is jobs in the traditional energy and other heavy industry sectors. As the energy transition continues, Leeds University estimates that 1 in 5 UK jobs will be impacted.³

For this reason, we consider climate change from a social, as well as environmental perspective and support the Financing a Just Transition Alliance. This is a group of financial services companies, coordinated by the Grantham Research Institute at the London School of Economics, who recognise the importance of the energy transition providing positive results for workers and communities.

As part of this work, we supported a letter to the UK Prime Minister, requesting that the Just Transition is at the heart of the UK government's net-zero strategy and we were pleased to see it feature prominently at the G7 summit in Cornwall.

For climate action to be a success, we believe that we have to leave behind carbon intensive assets but as a society we can't afford to desert the people who work within those industries.

² Climate Action 100+ (August 2021) 'Climate Action 100+ sets new decarbonisation expectations for food and beverage industry in line with Paris Agreement goals'. Online at www.climateaction100.org/news/climate-action-100-sets-new-decarbonisation-expectations-for-food-and-beverage-industry-in-line-with-paris-agreement-goals/

³ School of Earth and Environment (2021), 'Predicting how the transition to net-zero could affect UK jobs across the country.' Online at <https://environment.leeds.ac.uk/see/news/article/5394/predicting-how-the-transition-to-net-zero-could-affect-uk-jobs-across-the-country>

Climate change and asset selection

While we believe that the long-term impacts of climate change will be best addressed through engagement and climate action, we recognise that high carbon, and fossil fuel based, assets face increased risks during the inevitable energy transition. Therefore, as the manager of our clients' assets, we have a duty to increase the resilience of our clients' portfolios by incorporating the risks and opportunities posed by climate change into our investment process. We do this by:

- avoiding investment in the companies we believe contribute the most towards causing climate change
- assessing the most exposed companies' position against the Paris Climate Change Agreement.
- dedicating capital to assets that will accelerate the transition to net-zero.

Avoiding companies that cause the most harm

We believe that investing in companies and engaging with them to drive change is the best way to bring about positive change.

However, we also recognise that companies that fall significantly behind the pace of decarbonisation pose a significant financial risk – as they are the most likely to be disrupted by changing legislation, regulation and consumer preferences – and we do not want to profit from companies that are causing the most harm to our environment. We have, therefore, committed to not investing in companies that meet the following criteria.

Involvement in thermal coal

Prior to the global pandemic, that disrupted energy demands, 27% of the world's energy was produced from thermal coal⁴ but this represented nearly half of the world's global energy related carbon emissions⁵. Coal is, therefore, the single largest source of global temperature increases⁶.

CCLA is a signatory to the Powering Past Coal Alliance Finance Principles and supports efforts to remove unabated coal power generation in the Organisation for Economic Co-operation and Development (OECD) and European Union by 2030 and the rest of the world by 2040. This commitment, and the harm caused by coal, is reflected in our investment approach where we will not invest in⁷:

- 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 utility and infrastructure companies that intend to expand their coal-fired generation capacity.

Extraction of oil sands

In addition to our approach to thermal coal, we avoid investing in companies that derive more than 5% of their revenue from the extraction of oil sands. This is due to the energy intensive nature of their extraction and the widespread environmental destruction that extraction causes.

4 Hannah Ritchie and Max Roser (2020), 'Energy'. Online at <https://ourworldindata.org/energy>.

5 Independent Energy Agency (IEA) (2019), 'Global Energy and CO2 Status Report 2019.' IEA: Paris. Online at www.iea.org/reports/global-energy-co2-status-report-2019

6 The Powering Past Coal Alliance. See www.poweringpastcoal.org/about/who-we-are

7 These rules apply to our directly managed equity, fixed income and money market fund assets. They are applied on a 'best-endeavours' basis in our exposure to alternative assets (including infrastructure, private equity and other forms of debt)

Assessing companies against the Paris Agreement

Recognising the potential for regulation, legislation and changing consumer preferences to impact upon future profitability we assess companies in carbon intensive sectors decarbonisation plans⁸ prior to purchase.

To ensure transparency, this review is initially conducted using the, publicly available, Transition Pathway Initiative Performance Tool. This means that companies are assessed against sector specific decarbonisation requirements against a variety of different energy transition scenarios.

As part of our commitment to real-world change, any business that is not assessed as being aligned with a 'below 2 degrees' future is prioritised for engagement. The efficacy of this engagement is monitored by the Investment Committee who can mandate divestment if sufficient progress is not being made.

To provide further assurance, and set a minimum standard, companies in the electrical utility and oil and gas that are not assessed as being aligned with the Nationally Determined Commitments (that form part of the Paris Agreement) require the approval of CCLA's Investment Committee prior to purchase. This is only granted where we believe that there are errors in the data or if we are pleased to lead an engagement that will, in time, bring the company into line.

Due to the particular nature of the challenges facing the oil and gas industry, when looking at their future revenue expectations we amend 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 decision to currently not directly invest in the sector.

Allocating capital to climate solutions, declining capital to climate laggards

The OECD estimates that over \$6.9 trillion in investment is needed in order to move the world towards net-zero emissions. This is recognised in our investment approach as we recognise that well managed 'impact' assets can play a significant role in diversifying portfolios, as well as having a positive social and environmental impact. However, we believe that purchasing assets that already exist on the secondary market has little positive real-world impact.

Whilst challenging, we therefore prefer to identify assets on the primary market because it is here that capital is specifically and most efficiently directed to enabling 'new change' to happen. One example is our partnership with the UK government to launch the Clean Growth Fund. This will provide much needed venture capital to early-stage green businesses.

⁸ 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 TPI. The TPI tool is not used for understanding the decarbonization of diversified mining companies, due to concerns about the applicability of the performance rating methodology chosen for that sector. Companies outside the coverage of TPI are assessed on a best endeavours basis.

Recognising the requirement to 'fund' net-zero, our COIF Charities Ethical Investment Fund has established an aspirational target to dedicate 5% of capital to 'positive' solution investments. To be considered eligible for the fund, these investments must meet the fund's wider investment criteria.

Whilst we seek to dedicate capital to companies that accelerate the transition to the low-carbon economy, we seek to avoid providing capital to those that are holding it back. For this reason, in our fixed income funds we do not purchase the corporate debt of companies that derive more than 10% of their revenue from oil and gas refining and production or companies that derive more than 5% of their revenue from the extraction of energy coal. This is informed by the International Energy Agency's 1.5 degree scenario that notes that future oil and gas exploration is not compatible with limiting temperature rises. We also include concerns about climate financing in our annual assessment of the counterparties used by our money market funds.

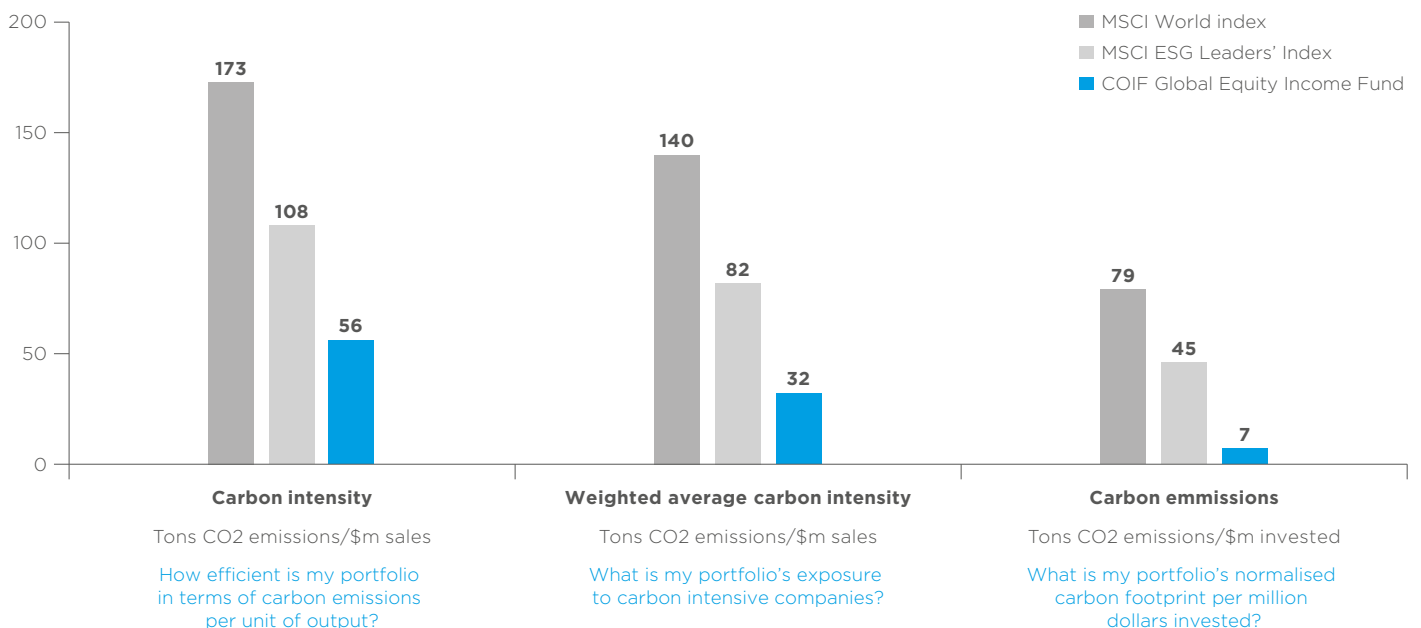
Monitoring and managing climate risk in our portfolios

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. The Charities Global Equity Income Fund, like all CCLA equity portfolios, compares favourably to both the MSCI World Index and the MSCI ESG Leaders Index.

Next steps

Over the next 12 months we will continue to build out our approach to monitoring climate risk within our portfolio. This will include portfolio value at risk measurements against different climate scenarios and publishing a Taskforce on Climate Related Financial Disclosures compatible report.

The carbon footprint of our portfolios



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

THE CLEAN GROWTH FUND



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

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

Clean growth companies often face difficulties in funding the research and development of early-stage projects. By partnering public funds with private capital, the CGF hopes to highlight the available opportunities in the green technology space and attract further investment.

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

'It is fundamental to channel capital into innovative technologies and seek out forward-thinking companies in order to reach net zero by 2050. We are proud to have partnered with the Clean Growth Fund and will continue to seek opportunities to invest in companies that aim to reduce carbon emissions.'

Solomon Nevins, Portfolio Manager

Implementation of our approach to climate change

Due to the importance that we place on addressing climate change, we have developed a rigorous governance structure to ensure the implementation of our policy and to monitor our path to net-zero emissions.

CCLA's Investment Committee is accountable for ensuring the implementation of our approach. This is resourced by the Head of Sustainability and the team of sustainability specialists.

To provide further oversight the COIF, CBF and LAMIT trustee boards⁹ as well as CCLA's board receive an annual update on our management of climate related risk.

Regular highlights of our approach to managing the risks and opportunities associated with climate change and the transition to a low carbon economy are reported to clients quarterly. A full overview of our approach is included in our annual Responsible Investment Report.

WE ARE CAREFUL TO MITIGATE OUR OWN IMPACT ON THE ENVIRONMENT

We aspire to excellence in promoting best practice to minimise negative environmental impacts and generate positive results where possible through investment and procurement decisions. CCLA has implemented an Environmental Management System

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.

⁹ CCLA is a private limited company whose shares are owned by its clients through their holdings in The CBF Church of England Investment Fund (CBF), the COIF Charities Investment Fund (COIF) and the Local Authorities Mutual Investment Trust (LAMIT) and its employees.

Our climate change and investment policy

Our climate commitment

We are committed to accelerating the transition to a net-zero emissions economy and taking steps to protect the value of our clients' portfolios during the transition. We will do this by:

- Acting to increase the pace of climate action by leading impactful engagements with the companies that we invest in and pushing policymakers for progressive regulation and legislation.
- Assessing companies' position against the energy transition as part of our investment process and avoiding those that do the most harm.
- Aligning our portfolios with our clients' requirements and disclosing information about our approach to managing the risks and opportunities associated with climate change.

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

Our policy commitments

To deliver this we will take the following actions:

1. **Managing our portfolios in line with our net-zero emissions target.** We commit to managing our listed equity portfolios to a carbon footprint that is below a decreasing maximum ceiling. The ceiling has been set based on the 2018 emissions of the MSCI World Index and decreases in line with the IPCC Special Report on Global Warming 1.5 Degrees Celsius. These targets will be revised every five years.
2. **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 companies on climate change. This will include all companies that are within high carbon sectors (oil and gas, electrical utilities, airlines, aluminium, autos, cement, shipping and steel sectors) and have not been judged to be aligned with a below 2 degrees future at a minimum
- Incorporating climate risk into our AGM voting activity. Our specific requirements of companies will be disclosed annually in our proxy voting policy
- Working with policymakers to push for progressive regulation and legislation.

3. **Assessing companies' position against the energy transition as part of our investment process and avoiding those that do the most harm.** We recognise that high carbon, and fossil fuel based, assets face increased risks during the inevitable energy transition. For this reason, we commit to the following:

- Avoiding companies that contribute the most harm. We believe that active ownership, rather than exit, is more likely to increase the pace of climate action. However, we do not want to derive profit from the companies that we believe contribute the most towards causing climate change. For this reason, we avoid investing in listed:
 - 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 utility and infrastructure companies that intend to expand their coal fired generation capacity
 - companies that derive more than 5% of their revenue from the extraction of oil sands.

In addition, our fixed income funds will not purchase the corporate debt of companies that derive more than 10% of their revenue from oil and gas refining and production, or companies that derive more than 5% of their revenue from the extraction of energy coal.

This is informed by the IEA 1.5-degree scenario that notes that future oil and gas exploration is not compatible with limiting temperature rises. We therefore do not want to directly provide primary capital that could support for this activity.

- 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 companies in carbon intensive sectors decarbonisation plans 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 that are not assessed as being aligned with the Nationally Determined Commitments
 - prioritise any business that is not assessed as being aligned with a 'below 2 degrees' future for engagement. The efficacy of this engagement is monitored by the Investment Committee who can mandate divestment if sufficient progress is not being made.

- also include concerns about climate financing in our annual assessment of the counterparties used by our money market funds.

- Seeking to provide capital to low carbon solutions. This is subject to them meeting the investment criteria of our funds.

4. **Aligning our portfolios 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 (for instance, the COIF Charities Ethical Investment Fund formally restricts investment in companies that derive significant revenue from the extraction and production of fossil fuels)
- commit to reporting annually on how we have discharged this policy.



Peter Hugh Smith
Chief Executive

September 2021

Disclaimer

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.

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CCLA

BECAUSE GOOD IS BETTER