CCLA
GOOD INVESTMENT

CCLA Better World Cautious Fund

Data coverage:[1] **36.80%**

CCLA recognises that the investments within the fund have an impact on the health of the climate. Equally, climate change could influence the performance of investments in the fund, because healthy markets need a healthy planet and healthy communities.

This report, based on the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD), aims to help you understand more about the climate-related financial risks the fund is exposed to and will give you the ability to compare a range of climate metrics with other funds.

To understand the governance, strategy and risk management that CCLA has in place to manage the risks and opportunities related to climate change, please refer to A climate for Good Investment, which also includes our approach to climate related scenario analysis, exclusions and engagement.

The climate metrics are only provided if reliable climate data and appropriate methodologies are available, which at present is for listed equities only. Data gaps are explained in A climate for Good Investment.

Climate metrics

Carbon footprint

Better World Cautious Fund	11.0 tCO_2e/$m invested
MSCI World[2]	127.8 tCO_2e/$m invested

Sums up the Scope 1 and 2 greenhouse gas emissions[3] in the portfolio based on the investor's ownership share of each of the companies' market capitalisation (in USD) and it is expressed as tonnes of carbon dioxide equivalents (tCO_2e) per $1 million invested. The larger the number, the greater the contribution to the effects of climate change.

Total carbon emissions

Better World Cautious Fund	92,083 tCO_2e
MSCI World	782,754 tCO_2e

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

Carbon intensity

Better World Cautious Fund	51.3 tCO_2e/$m sales
MSCI World	169.7 tCO_2e/$m sales

Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their equity ownership. Emissions and sales are apportioned based on equity ownership (% market capitalisation).

Weighted average carbon intensity (WACI)

Better World Cautious Fund	54.3 tCO_2e/$m sales
MSCI World	145.1 tCO_2e/$m sales

Measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' carbon intensity (emissions/sales), expressed in tCO_2e/$1m sales. The larger the number, the more carbon intensive the investments.

Financed emissions (FE)

Better World Cautious Fund	8.6 tCO_2e/$m invested
MSCI World	75 tCO_2e/$m invested

Represents the financed greenhouse gas emissions (Scopes 1 and 2) associated with the fund. The larger the number, the more it is contributing to the effects of climate change.

1 The carbon and climate metrics **only** cover the fund's holdings in listed equity investments, represented by the figure above. Therefore, if the figure stated is below 100%, they may not represent the fund's total carbon footprint/climate-related impact for these metrics and are not comparable with other funds. Lower data coverage results in reduced reliability for these metrics.
2 MSCI World Index is used as the comparator benchmark as a proxy for the world economy.
3 Scopes 1, 2 and 3 are a categorisation of greenhouse gas (GHG) emissions.
Scope 1: GHG emissions that a company makes directly, for example while running its boilers and vehicles.
Scope 2: emissions companies make indirectly that is being produced on its behalf, for example purchased electricity or energy for heating and cooling buildings.
Scope 3: all the emissions associated, not with the company itself, but for which the organisation is indirectly responsible, up and down its value chain. For example, from buying products from its suppliers, and from its products when customers use them. Usually the largest emission category.

Scenario analysis

When considering climate related risks, we use both backward- and forward-looking data. Backward-looking data summarises the greenhouse gas emissions of an asset or fund.

Forward-looking data aims to gauge the significance of climate risks on the individual investments within the fund. This is determined using climate scenario models which are complex multidimensional computational tools. They are based on a number of variables: data from climate forecasting models, current observations, assumptions about future socio-economic behaviour and the regulatory landscape.

Due to the numerous assumptions and long-term projections climate models make, there are inherent uncertainties imbedded within the results. Therefore, results should be considered with caution as they are estimates of projections, not forecasts. The results should be interpreted on a relative basis as actual future conditions may differ substantially from these projections.

The key forward-looking metrics that we monitor are outlined below.

Climate value at risk (VaR)

This measure quantifies the size of loss on a portfolio of assets over a given time horizon, at a given probability. The climate VaR is an aggregate figure comprising:

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

The following table reflects the impact the costs of transition will have on reducing the profitability of the companies in which the fund invests.

Scenario	Metric	Better World Cautious Fund (%)	MSCI World (%)
Orderly	Policy climate VaR	-1.89	-16.72
	Technological opportunities VaR	0.08	2.37
	Physical climate VaR	-3.16	-12.21
	Aggregated climate VaR	**-4.97**	-26.56
Disorderly	Policy climate VaR	-1.25	-12.27
	Technological opportunities climate VaR	0.04	1.26
	Physical climate VaR	-3.16	-12.93
	Aggregated climate VaR	**-4.37**	-23.94
Hot house world	Policy climate VaR	-0.33	-3.83
	Technological opportunities climate VaR	0.01	0.55
	Physical climate VaR	-3.99	-15.27
	Aggregated climate VaR	**-4.31**	-18.54

What CCLA is doing to mitigate this risk

Most investors will not be able to deliver net-zero portfolios in a 'business as usual' world. Climate change is a systemic and non-diversifiable risk, this means that it is not possible to avoid the negative implications through asset selection alone. For this reason, it is essential that investors with net-zero targets have credible and consistent approaches to pushing for 'real world' decarbonisation.

There are two ways to pursue net-zero listed equity portfolios: 'transactions' and 'action'.

1. **Transactions** is the attempt to reduce carbon emissions in an investment portfolio by selling high carbon assets and purchasing low carbon ones. While this will reduce the footprint of the portfolio, it is unlikely to have an impact on the real world as the assets will be purchased by another investor and continue to emit.
2. **Action** is where the investor works with companies to incentivise them to take steps to reduce their footprint. While slower, this approach decarbonises portfolios by genuinely reducing emissions and, in so doing, contributes to 'real world' decarbonisation.

As part of our commitment to 'action', we are seeking to drive decarbonisation through dialogue with the companies in which we invest and by engaging with public policy makers, while setting a year-on-year maximum carbon footprint ceiling for our listed equity investments (see A Climate for Good Investment).

Implied temperature rise

The implied temperature rise (ITR) captures a company's contribution to rising temperatures. The metric aims to quantify the alignment of a company's activities against future temperature goals such as the Paris Agreement's maximal goal of mean surface temperatures not breaching 1.5˚C.

Better World Cautious Fund	**2.17**
MSCI World	2.43

Important information

Data source: MSCI, as at 31 March 2024.

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

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

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

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