CCLA
GOOD INVESTMENT

Sustainability approach for cash funds

Cash at CCLA

Our cash funds currently invest on behalf of our church, charity and local authority clients in the CBF Church of England Deposit Fund, the COIF Charities Deposit Fund and the Public Sector Deposit Fund.

These funds primarily invest in fixed income securities, which are certificates of deposit issued by financial institutions that are on CCLA's approved counterparties list. In addition, these funds may use term deposits and notice accounts. These instruments and deposits offer a fixed interest rate in exchange for a predetermined holding period.

Unlike term deposits, certificates of deposit are liquid and tradable which provides additional liquidity if required. It's important to note that the cash funds do not own any shares in the financial institutions but rather maintain a depositor type relationship.

Sustainability approach

CCLA assesses potential counterparties based on their financial strength and a number of sustainability indicators. These indicators include:

1. our corporate governance rating
2. the counterparty's signatory status with the Equator Principles
3. the counterparty's position on CCLA's UK and Global Mental Health benchmarks
4. the counterparty's position on CCLA's Modern Slavery benchmark
5. an assessment of the counterparty's coal, oil and gas expansion policies.

In addition, CCLA routinely monitors counterparties compliance with Global Standards[1] through our third-party provider to determine whether they are compliant with and/or whether they have significant or severe controversies. When significant concerns about their governance, or wider social and/or environmental impact are identified, counterparties' eligibility for use by the fund is suspended.

Counterparties which do not comply with Global Standards, and/or have the most severe level of controversy (as advised by our third-party provider) are excluded. If they become non-compliant while we hold fixed interest securities issued by them in our funds, a time-limited engagement plan is created with regular monitoring by the CCLA Investment Committee. Should the counterparty not show sufficient improvement, the investment team has a six-month divestment window. Finally, no further fixed interest securities (or other types of cash instruments) issued by this counterparty can be purchased.

We apply a five-tier scoring system (tier 1 being the highest score) to each of the five indicators above to identify laggards and subsequently prioritise engagement as depositors in the counterparties. Where a counterparty is in tier 5 on any indicator it is excluded from our approved counterparties list. Where a counterparty is in tiers 4 or 3 on any indicator, we prioritise the counterparty for engagement with the aim to improve their practices. If a counterparty isn't covered by a sustainability indicator then they are not assessed against this indicator.

Finally, counterparties must be approved by the Investment Committee before becoming eligible for use by the funds.

1 Global Standards cover the UN's Global Compact Principles, International Labour Organization's (ILO) Conventions, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs).

Sustainability indicators

CCLA corporate governance rating

Objective:
identify corporate governance risk

We use a bespoke quantitative corporate governance rating tool, designed to assess a company's board structure, ownership, accounting practices and management capabilities. A secondary, qualitative overlay allows us to identify strengths and weaknesses in a company's governance structure and how these adapt over the life of the holding.

Our governance evaluation process is an integral part of CCLA's investment process and operates as follows:

- Corporate governance analysis is conducted on all prospective counterparties prior to them being added to the approved counterparty list.
- Counterparties with high governance risk, or those without independent auditors or who have received a qualified audit report, will only be eligible with the approval of CCLA's Investment Committee.
- For a 'high risk' counterparty to be approved for deposit, the relevant investment analyst must demonstrate why a 'high risk' rating – or the auditor's qualification – is incorrect or not of concern. This can require detailed qualitative analysis, fact-finding discussions with the counterparty and ongoing target-based engagement.
- Should an existing counterparty's rating decline to 'high risk', a full governance review is required and a decision on continued use is required within one week.
- A review of high governance risk counterparties and a fund's holdings by governance rating are standing agenda items at CCLA Investment Committee meetings.

Equator Principles

Objective:
identify project finance sustainability risk

Large infrastructure and industrial projects can have adverse effects on people and on the environment. The Equator Principles are intended to serve as a common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risks when financing projects. The principles apply to the five financial products: project finance advisory services, project finance, project-related corporate loans, bridge loans and project-related refinance, and project-related acquisition finance. Signatories to the Equator Principles may use the principles for additional financial products outside the scope of the Equator Principles at their own discretion.

We note whether counterparties are signatories and at what level (parent company or subsidiary).

CCLA Corporate Mental Health Benchmarks (UK and Global)

Objective:
improve corporate practices to support good mental health at work

With the support of Chronos Sustainability and an Expert Advisory Panel including Paul Farmer (former CEO of the charity Mind), Lord Dennis Stevenson, the Principles for Responsible Investment and others, CCLA has refined and built a set of assessment criteria. In Q1 2022, we used these criteria to evaluate and score the 100 largest UK-listed companies with more than 10,000 employees on their public disclosures with the aim to improve corporate practices. On 26 May 2022, the CCLA Corporate Mental Health Benchmark UK 100 was launched. We now publish a UK and global benchmark annually in May and October respectively.

Our award-winning Corporate Mental Health Benchmarks are the culmination of sustained collaboration with workplace mental health experts, data providers, charities and UK-listed and global companies. As responsible investors, we want companies to be successful and to make a positive difference in their sphere of influence. Successful companies safeguard staff mental health because in doing so they also safeguard their economic success.

The benchmarks have a five-tier scoring system. Where a counterparty falls in scope of the benchmark, we note their tier and score within the benchmark.

Counterparties that are not included in the benchmark are not included within this sub-theme.

CCLA Modern Slavery Benchmark

Objective:

Improve corporate practices in finding, fixing and preventing modern slavery

Having identified a gap in the modern slavery data available to investors, we built a benchmark that assesses and ranks companies based on their modern slavery disclosures. Launched in November 2023, the aims of the CCLA Modern Slavery UK Benchmark are to:

- develop a framework on the degree to which companies are active in the fight against modern slavery
- create an objective assessment of corporate modern slavery performance aligned with statutory requirements, government developed guidance and international voluntary standards on business and human rights
- support modern slavery engagement by investors
- provide a vehicle for learning and knowledge sharing
- introduce a sense of competition between businesses, thereby expediting improvement in corporate practice.

The benchmark assesses the largest UK-listed companies on the degree to which they:

- conform with the requirements of Section 54 of the Modern Slavery Act 2015
- disclose information outlined in the Home Office Guidance on Modern Slavery
- report on efforts to find, fix and prevent modern slavery.

Companies are assigned to one of five performance tiers that correspond with the Independent Anti-Slavery Commissioner's IASC Maturity Framework. We note where counterparties in scope of the benchmark sit on the five-tier scoring system.

Counterparties that are not included in the benchmark are not included within this sub-theme.

Reclaim Finance

Objective:

to ensure the financial sector is adopting effective policies to forcefully contribute to the 1.5°C climate goal

Reclaim Finance is a non-governmental research and campaigning organisation. They follow and analyse the policies of financial institutions and deliver this analysis in the form of two policy trackers. The Oil & Gas Policy Tracker and the Coal Policy Tracker.

Both trackers are designed to track the commitments taken by top financial institutions worldwide, highlight the good practices, and shed light on the existing loopholes to be avoided.

CCLA focuses on the expansion criterion in both trackers which scores policies on a scale of 0 to 10.

We identify which counterparties have poor coal, oil and gas expansion policies.

Area	Topic	Evidence-based standard	1. Very good	2. Good	3. Average	4. Needs improvement	5. Uninvestable
Environment	Fossil fuel expansion	Reclaim Finance (oil expansion)	Does the bank's oil expansion policy score between 8 and 10 (incl.) on Reclaim Finance's Oil & Gas Policy Tracker?	Does the bank's oil expansion policy score between 5 and 7 (incl.) on Reclaim Finance's Oil & Gas Policy Tracker?	Does the bank's oil expansion policy score between 0 and 4 (incl.) on Reclaim Finance's Oil & Gas Policy Tracker?	Does the counterparty face a significant controversy?	Failure to comply with Global Standards (GS)
		Reclaim Finance (coal expansion)	Does the bank's coal expansion policy score 8 or 10 (incl.) on Reclaim Finance's Coal Policy Tracker?	Does the bank's coal expansion policy score between 5 to 7 (incl.) on Reclaim Finance's Coal Policy Tracker?	Does the bank's coal expansion policy score between 0 to 4 (incl.) on Reclaim Finance's Coal Policy Tracker?	Does the counterparty face a significant controversy?	Failure to comply with Global Standards (GS)
Governance	Governance	CCLA corporate governance rating	Does the company have a rating of A or B?	Does the company have a rating of C or D?	Does the company have a rating of E & F?	Qualified, disclaimer of opinion or adverse audit opinion in the past 3 years. **And/Or** Does the counterparty face a significant controversy?	Failure to comply with Global Standards (GS)
	Project finance	Signatory to Equator Principles	Is the bank a signatory to the Equator Principles?	Has a subsidiary signed the Equator Principles?	Is the bank not a signatory to the Equator Principles?	Does the counterparty face a significant controversy?	Failure to comply with Global Standards (GS)
Social	Mental health	CCLA Mental Health Benchmark (UK or Global)	Performance Tier 1	Performance Tiers 2, 3 and 4	Performance Tier 5	Does the counterparty face a significant controversy?	Failure to comply with Global Standards (GS)
	Modern slavery	CCLA Modern Slavery Benchmark (UK)	Performance Tier 1	Performance Tier 2 and 3	Performance Tier 4	Performance Tier 5 **And/Or** Does the counterparty face a significant controversy?	Failure to comply with Global Standards (GS)

Important information

September 2024

WANT TO KNOW MORE?

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BECAUSE GOOD IS BETTER