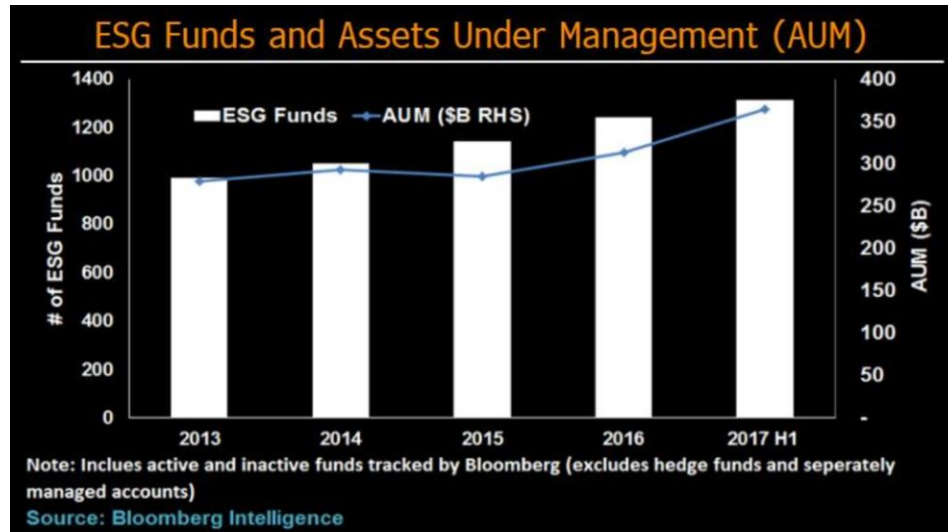


ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS HUNTING DOWN THE HIDDEN RISKS

Laura Hobbs, Deputy Head of Ethical & Responsible Investment



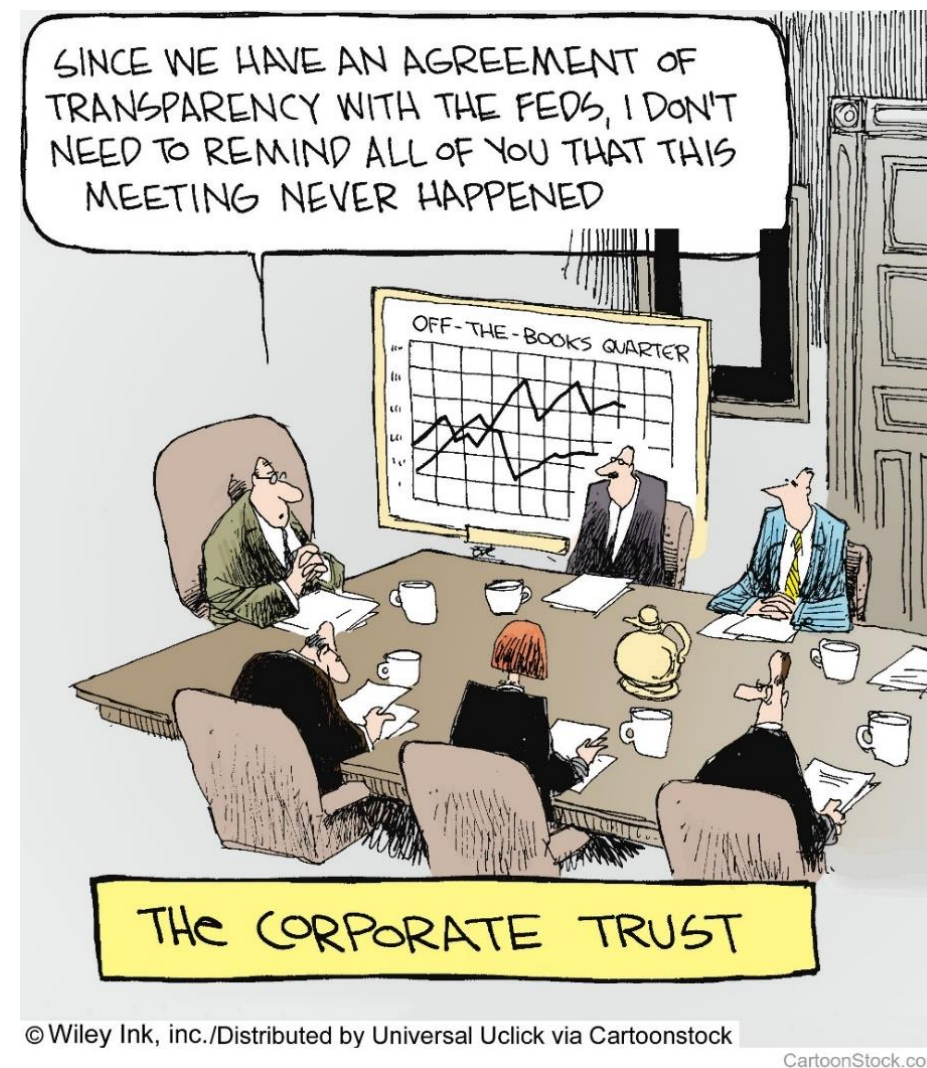
- What is it?
- Why do you have to think about it?
- What can you do?



- The integration of environmental, social and governance criteria into investment decision making
- Over one quarter of all investment assets are now managed with some ESG criteria*
- Mixed motivations for investing in an ESG manner
 - Improved investment return
 - To do good or reflect values

*Source: McKinsey

- 'Externalities' can be brought back onto the balance sheet
- Sustainability should be at the core of investment
- 'ESG' runs the risk of trivialising important issues



'ESG' should be a risk to be managed, not a box to be ticked



Financial Times @FinancialTimes · 29 Mar 2016
Sugar tax sours AG Barr



Sugar tax sours AG Barr
Irn-Bru maker particularly sensitive to chancellor's not-so-sweet measures
ft.com

Source: Google Finance and Twitter



Reuters Top News @Reuters · 29 Sep 2017

VW takes new \$3 billion hit over diesel emissions scandal reut.rs/2yLtnO

Source: Google Finance and Twitter

Facebook sued by US regulator over Cambridge Analytica scandal

DC attorney-general accuses social network of failing to protect users' data

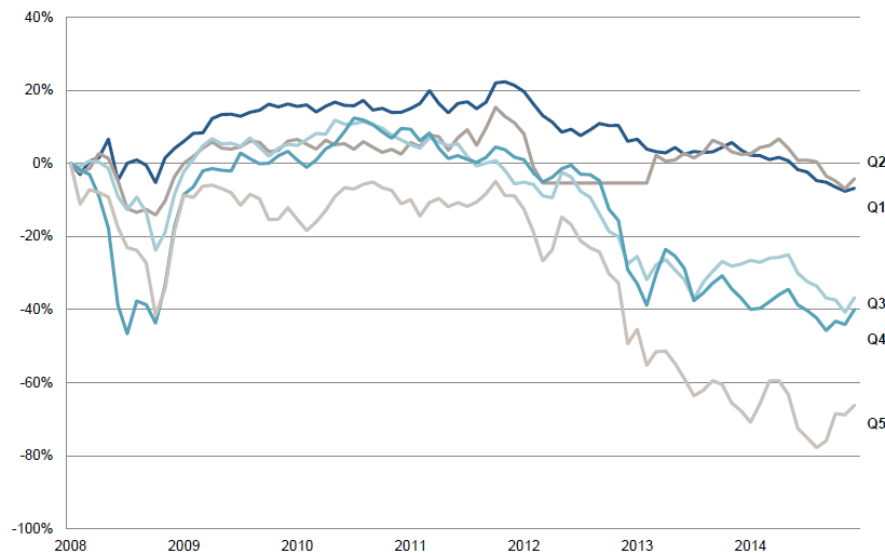


The Cambridge Analytica scandal stems from how the personal data of about 70m Facebook users was obtained by the political research firm in 2014 © Reuters



Source: Google Finance and Twitter

Cumulative return by
MSCI Governance Ranking Quintile



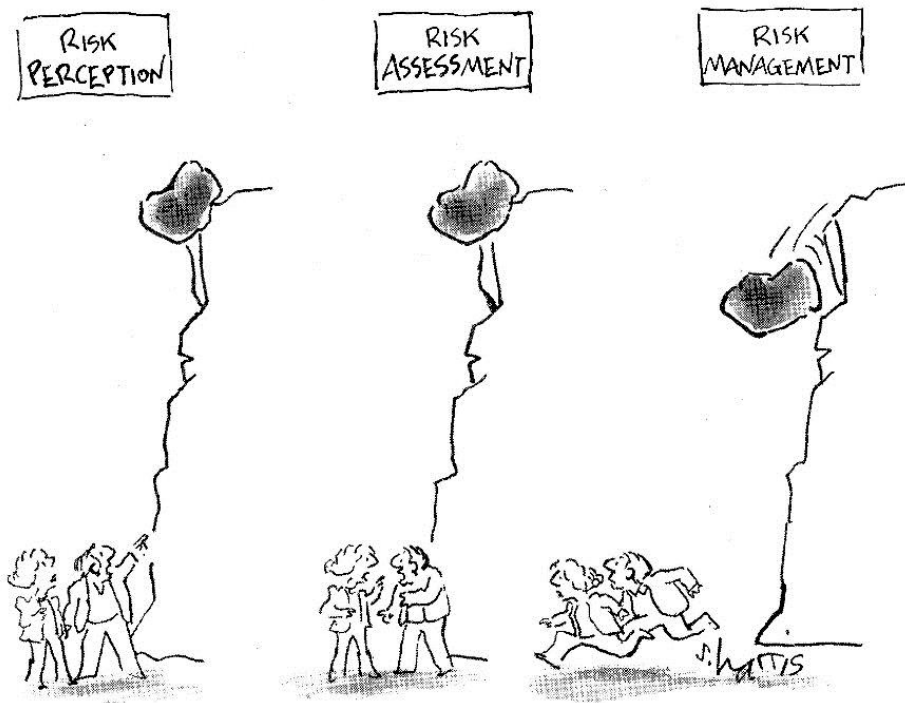
Key: % Cumulative return against year

Source: Credit Suisse

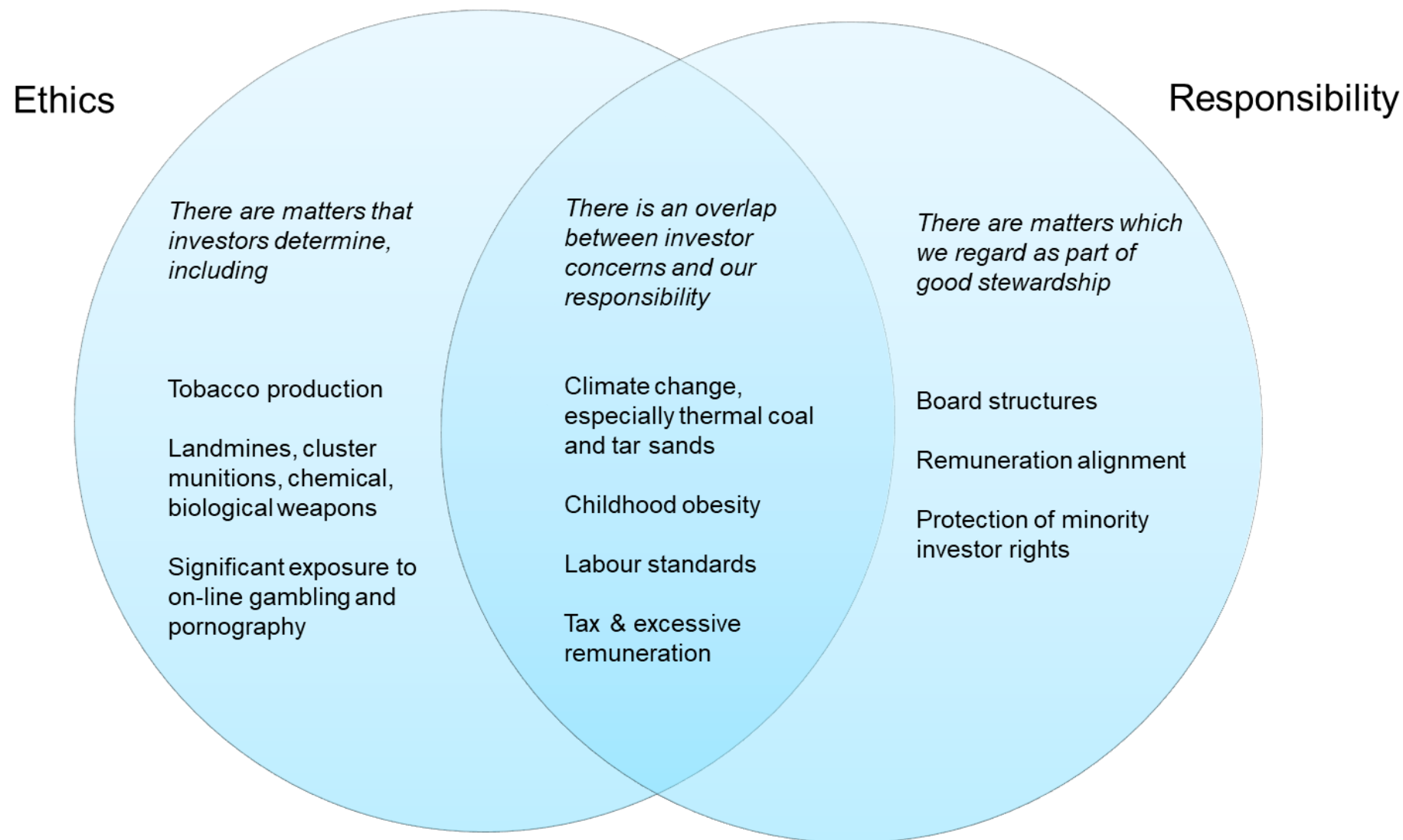
- The market finds it very hard to price ESG risks
- The 'worst' companies are at risk of underperformance
- Learn from previous examples

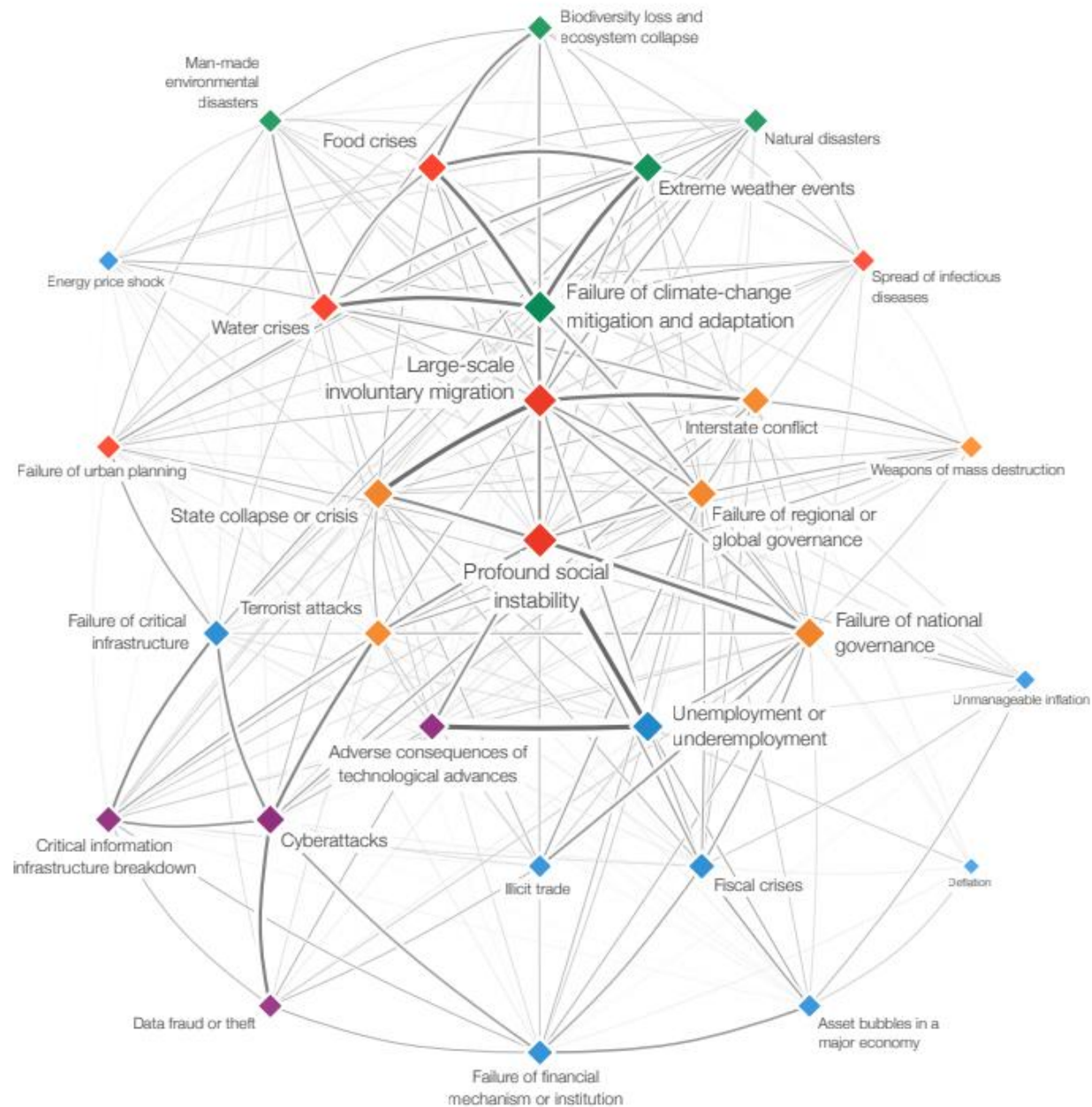
Know your risks, make sure you are compensated for them

- High, unmitigated, environmental, social and governance risks can negatively impact company performance
- We have a rigorous approach to assessing companies with high ESG risks

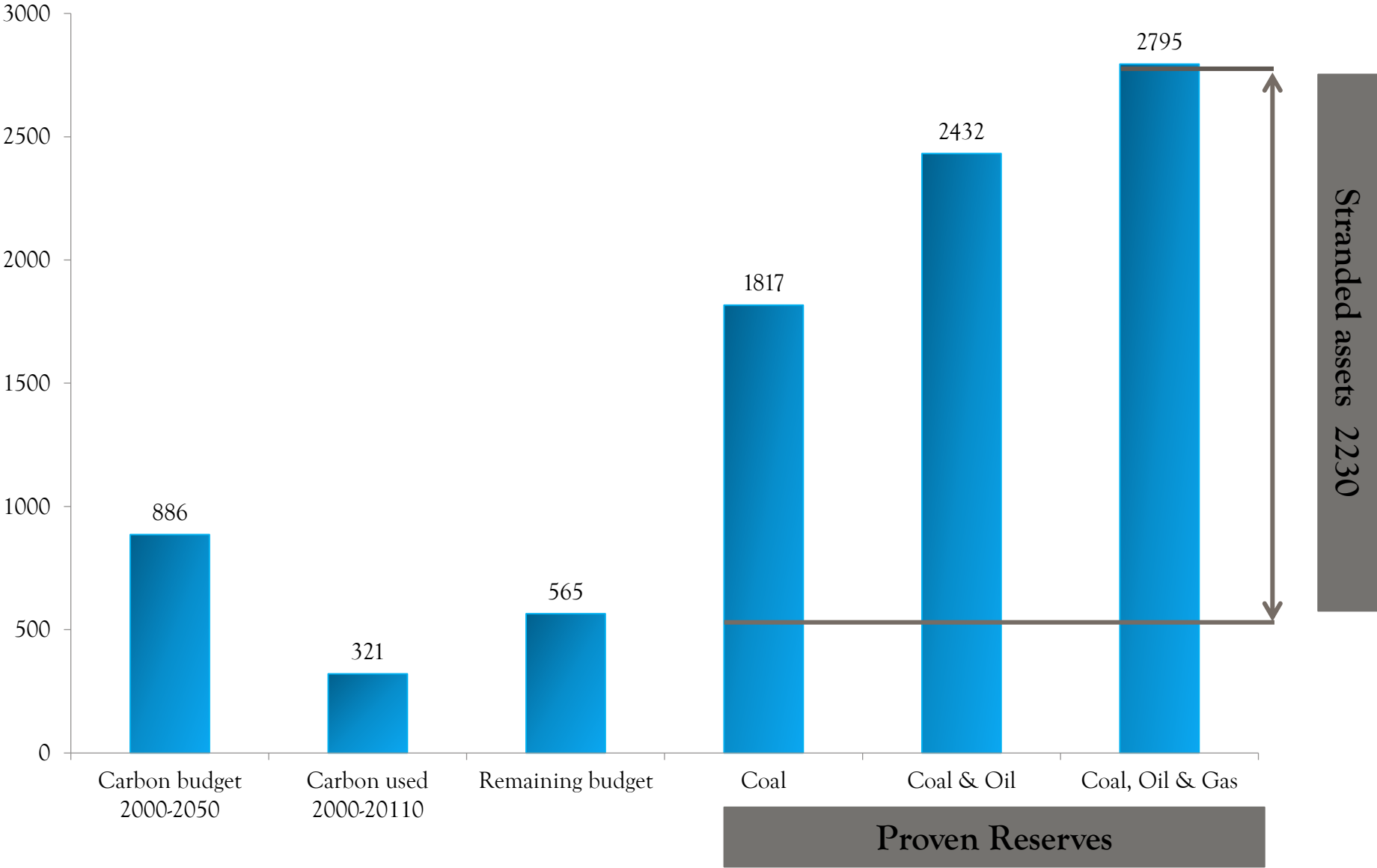


- We use third party data to assess ESG risk management at all prospective investee companies
- We pay particular attention to companies involved in extractives industries and chemicals
 - We have minimum standards on issues such as health and safety
- We engage with companies to encourage continued improvement





Source: World Economic Forum, 2018



Source: Carbon Tracker Initiative

- Climate change is a threat to long-term investment returns
- We support attempts to limit temperature rises and analyse the impact of the transition to a low carbon economy to company value



- We avoid companies who focus on the extraction of oil sands and energy coal
- We are wary of old-style Oil & Gas but short-term opportunities can exist
- We seek to identify low carbon investment opportunities

- We believe that engagement can help companies manage their ESG risks and improve returns for shareholders
- We engage with all investee companies at least once per year and dedicate our resource to where it is most needed.
 - We vote at company Annual General Meetings
 - We seek to gradually improve ESG standards across our portfolios
 - We focus engagement on key risks and client priorities
- Our approach to Stewardship was awarded an A+ Rating by the PRI Assessment and we are 'Tier One' Signatories to the Financial Reporting Council's Stewardship Code



- Some ESG risks are material, but will not have an impact in our time horizon
- We need to ‘make the future’
 - It underpins future profit making
- Engagement on climate change
 - We filed successful shareholder resolutions at all of our oil, gas and diversified mining holdings

Managing risks before they become ‘material’

- Second leading cause of morbidity in the UK
- Costs UK businesses £26 billion a year
 - 70 million lost working days a year*
- Costs to the UK economy estimated between £74 billion and £99 billion a year – 4.5% of GDP**
 - Health care
 - Social services
 - Welfare benefits
 - Lost productivity



Mind @MindCharity · Jan 7

With 2 million more adults in the UK expected to have mental health problems by 2030, it's vital that the new #NHSLongTermPlan is delivered and money reaches services on the front line. Read our response here > bit.ly/2FifoUW



*Source: Mental Health Foundation

**Source: Deloitte 2017, Mental health and wellbeing in employment – a supporting study for independent review



- There are 25 million victims of modern slavery worldwide*. 77% of major UK retailers believe that slavery exists in their supply chain**.
- Addressing Modern Slavery is a priority for our clients. We are working to address this by engaging with:
 - FTSE 100 companies with a poor response to the Modern Slavery Act
 - Companies in the bottom half of the 'Know the Chain' benchmark
- Half of all forced labour is caused by debt bondage**:
 - We are encouraging companies to adopt the 'employer pays principle'
 - This prohibits charging recruitment fees

*Source: the ILO

**Source: Ashridge Hult Business School - % of responders to study

- There is a link between eating red meat and developing cancer*
- Agriculture also contributes towards climate change, accounting for 10% of the EU's greenhouse gas emissions**
- The UK government's advisory Committee on Climate Change recommends a 20-50% reduction in beef and lamb pasture
- We are part of a collaborative research project to better understand the risks and opportunities for sustainable and healthy food transitions



FAIRR Initiative @FAIRRinitiative · Jan 7

Will meat and dairy production have a 'plastics moment' in 2019? #ESG
buff.ly/2TiVRqQ



PETA @peta · Feb 7

The **meat** 🥩 and dairy 🥛 industries are a leading cause of:
climate change 🏠
 water waste 💧
 deforestation 🔥🌲

Go #vegan for the environment 🌍

*Source: WHO

**Source: European Environment Agency

- ESG Integration is about risk management
 - But check what is under the lid and that your manager is delivering
- Stewardship manages risks before they become risks
 - But measure what it achieves
- Your voice matters
 - Use your investments to influence positive change
- Talk to your investment manager about what is important to you



www.ccla.co.uk

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