



Response to ESG Questionnaire Columbia Threadneedle

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Columbia Threadneedle are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

Responsible Investment at Columbia Threadneedle Investments means striving to be responsible stewards of our clients' assets, allocating their capital within our framework of robust research and good governance. It means acting in the best interests of our clients by integrating environmental, social and governance (ESG) issues into our investment process and being an active voice in the industry, seeking to drive innovation and transparency.

Investment philosophy

- The integration of ESG considerations into our investment research builds a more holistic picture of the risks and future return prospects of all investment opportunities.
- Companies that demonstrate sustainable business models, organisational stability, and the ability to effect positive change are more likely to deliver value.
- Active ownership through continuous monitoring, targeted engagements and strategic voting can enhance research insights, drive change, and help create long term value.

Policies

We have global policies, covering key aspects of our responsible investment (RI) approach:

- Global Engagement Policy & Approach
- Global Proxy Voting Policy
- Environmental and Social Practices Statement
- Corporate Governance Guidelines
- Climate Policy – TCFD Climate Change Report

All the above policies are publicly available on [our website](#).

We review and update our RI policies on an annual basis in line with best practice.

Active ownership

We define engagement as constructive dialogue with issuers on ESG risks that could have a material negative impact on their businesses and, where necessary, encouraging improvement in ESG management practices. Engaging with companies on ESG issues forms an important part of our research. Analysts and portfolio managers engage (often in collaboration with RI specialists) to deepen their understanding of the risks and opportunities facing a company and encourage adoption of best practice.

Our engagements focus is on financial performance, sustainability risks and opportunities, operational excellence, capital allocation policies and managerial incentives, among other topics. Collaboration across asset classes and thematic and sectoral disciplines ensures an informed approach.

We are committed to the good stewardship of our clients' investments through active share ownership, specifically engaging company management and exercising our right to vote on resolutions at company shareholder meetings.

Nina Roth, Head of Active Ownership, leads this effort, and those members of our capability focused on engagement and voting, of which there were 25 analysts as at 31st December 2023. These individuals can provide input in determining the vote decisions & rationales for specific issuers within their thematic, sectoral or regional focus. Our responsible investment analysts specialise by theme and sector, and conduct research as part of their role, as expertise on material ESG issues is critical for successful engagement and thoughtful voting.

When setting the engagement agenda each year, the team gather input from investment desks through a formal consultation. Depending on the topic and severity of the issue, RI analysts carry out engagements also in collaboration with investment desks. They conduct informal and formal training sessions with investment teams to share engagement best practice on different topics, and they lead on our collaborative engagement efforts.

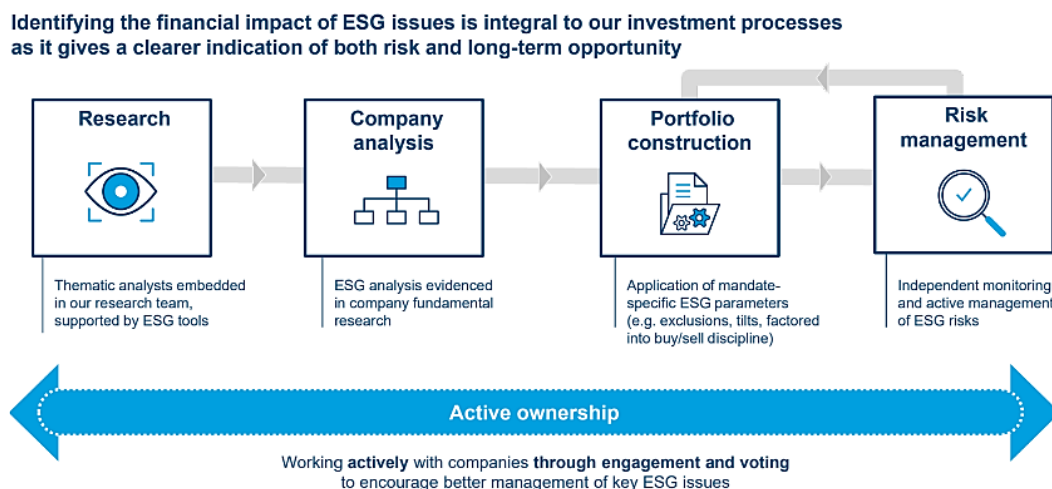
Our investment analysts and portfolio managers aim to meet with all portfolio companies we hold at least once per year as a part of their due diligence with companies. These meetings include ESG factors and sustainability issues, and our RI specialists will participate as appropriate. Enhanced ESG-focused engagements are led by our active ownership team, accompanied by relevant portfolio managers and analysts as appropriate.

We partner with ISS for routine proxy votes, who implement our in-house and bespoke regional policies (using our detailed voting rules). Except for the actual voting decisions, all other aspects of vote execution are outsourced to ISS.

We are proud signatories to the UK Stewardship Code. We publicly disclose our annual Stewardship Report on [our website](#).

2. Please provide an overview of how ESG is integrated into your business.

At Columbia Threadneedle we strive to be responsible stewards of our clients' assets. We are committed to achieving appropriate integration of RI throughout each of the asset classes we invest in and strategies we run, underpinned by our investment approach.



Source: Columbia Threadneedle Investments. For illustrative purposes only. Although ESG research is made available to all portfolio managers, each portfolio management team within our firm makes its own investment decisions and certain teams may place more, less or no emphasis on ESG factors in any given investment decision.

Research

Our research incorporates ESG factors and MSCI ratings, plus our own quantitatively back-tested ratings using the Sustainability Accounting Standards Board (SASB®) framework. Proprietary ratings are evidence-based, value added and actionable based on ESG fundamentals and financial stewardship. The ESG Materiality Ratings model draws on a large amount of published data for over 10,000 global companies enabling us to assess issuer risks and provides portfolio risk analytics and attribution. This ensures we understand companies' exposure to, and management of, factors such as regulation, physical threats to assets, brand and reputation, and operational costs. We follow a best-in-class approach and assess companies against peers, assigning scores on material industry factors. We also consider charters such as the UN Global Compact and OECD Guidelines for Multinational Enterprises.

Our RI specialists work with our investment teams providing stock-level analysis. They support idea generation by conducting and joining company meetings and produce thematic reviews to identify compelling areas of opportunity. This helps us better understand companies' strategic direction, business model sustainability, controversial areas, and commitment to change. They also provide shareholder voting recommendations.

Portfolio construction

ESG considerations are evaluated, alongside other relevant factors, when making investment decisions. Portfolio managers are ultimately responsible for considering all relevant factors that can enhance their portfolios and the ongoing management of their holdings and are supported by a number of research tools. Any mandate-specific ESG parameters (for example any exclusions and tilts, or net zero portfolio commitments) are factored into the portfolio's buy/sell discipline.

Risk management

Columbia Threadneedle requires that all relevant risks, including ESG related risks, should be carefully considered and evaluated when making an investment decision. The oversight of ESG within the investment process and, where appropriate, the ESG characteristics within a portfolio are monitored through our standard investment governance framework: line management, investment consultancy and oversight, investment risk and audit. We conduct independent monitoring and active management of ESG risks. We also consider existing and emerging regulatory requirements through dedicated policy-focused specialists, as well as participation in

industry groups, as appropriate. We conduct independent monitoring and active management of ESG risks for listed assets and will develop this across further asset classes.

Nuances in asset classes and regions

There are some differences of ESG integration based on asset class given risk exposures, liquidity of instruments and the length of time we may be invested. Asset class nuance also impacts the way we conduct active ownership; for example, there are limitations to engaging with sovereign issuers relative to listed equity investments. The degree of ownership or control that an investor has, can greatly impact the ability to engage and effect change. Collaborative engagements, for instance, may be more suited where an individual investor voice is not as strong. We may also choose to prioritise engagement where our investment horizon is longer or aligns with a specific ESG factor, rather than engaging where a holding period is shorter, and that factor is unlikely to impact our investments value.

As part of our approach, we also take account of geographic variations. We recognise that ESG standards, the level of investor engagement, and responsiveness to thematic ESG factors may be influenced by the country or region the issuer operates in. For example, an emerging market issuer may have lower regulatory standards on certain ESG factors versus a European issuer. Governance structures may vary based on the market, for example, a greater prevalence of state-owned enterprises in some markets, or unique approaches like the two-tiered board systems in Germany. To be effective, we must consider ESG and active ownership in the context of these nuances.

Fund distinctions

We believe it is important to distinguish that ESG integration is not automatically a proxy for sustainable investment. As outlined above, the consideration of ESG issues forms part of our research process but does not necessarily equate to fund having a sustainable mandate. Beyond funds that integrate ESG issues as part of the research process, we also offer specific sustainable and responsible investment products that have clear, specific, and binding ESG objectives in their investment guidelines. These include products with an elevated level of ESG factor incorporation and potentially sector/security exclusion, as well as funds that invest entirely in sustainable investments and have both a financial return objective and target environmental and/or social outcomes or impacts.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

Yes, our Controversial Weapons policy reflects international conventions and treaties – including the Convention on Cluster Munitions, the Ottawa Treaty, the Chemical Weapons Convention, and the Biological Weapons Convention – and formally applies to all funds managed by Columbia Threadneedle EMEA.

Where a company is verified to undertake activities relating to the production, stockpiling, transfer and/or use of controversial weapons, it is our policy not to invest in securities issued by that company.

To implement this approach, we actively screen companies for evidence of their corporate involvement in the production of:

- anti-personnel mines
- cluster munitions
- bio/chemical weapons, and
- depleted uranium ammunition and armour
- blinding lasers
- non-detectable fragments

Legally enforced prohibitions based on international sanctions are also reflected within our approach. Whilst certain of our funds are subject to additional screening approaches, no other exclusion criteria are applied on such a broad basis.

Additionally, while it is our policy not to invest in securities of issuers considered to breach the policy, we reserve the right to take short positions in such securities. As matter of policy, we do not disclose this list.

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

We discuss below significant developments that took place in calendar year 2023.

Policy enhancements

In early 2023 we introduced a **policy suite reflecting our integrated Active Ownership activities**, across the global firm post BMO GAM EMEA acquisition. These integrated policies are listed below.

- Corporate Governance Guidelines
- Corporate Debt and Responsible Investment Guidelines
- Proxy Voting Policy
- Conflicts of Interest Addendum to the Proxy Voting Policy
- Engagement Policy
- Environmental and Social Practices Statement
- Conflicts of Interest Addendum to the Engagement Policy

ESG Materiality ratings

In 2023, we introduced enhancements to our proprietary ESG Materiality ratings, following an extensive review by our sector analysts. The improved ratings reflect our best and latest thinking on the integration of ESG into our investment processes. The ratings were enhanced on three fronts:

- **Increased data granularity:** we revisited our data mapping to reflect the latest, broader range of data inputs, resulting in a better match with the relevant SASB® standards.
- **Calculation Methodology:** our updated approach moved from peer ranking companies to focusing on absolute exposure to downside ESG risks. This allows for better cross-sector consideration when using ESGM ratings in portfolio risk construction.
- **Scoring Band:** we introduced a score change band to only allow re-rating when there are meaningful changes in scores. This served to reduce the volatility of the ratings.

Together, these adjustments make our ratings more consistent with how they are expected to be used in the investment process. Their coverage also increased: today, 98% of the MSCI ACWI now has sufficient coverage.

Climate

In June 2023, we successfully published both our Product-Level and Corporate-Level TCFD reports to our website:

- **Corporate-Level report:** The report is publicly disclosed on our [website](#).
- **Product-Level reports:** The reports have been made available on the relevant fund pages on our website.

In 2023 we expanded climate data availability to portfolio managers and analysts by adding our net zero model into the Aladdin® Enterprise System (our portfolio management system). This model is based on the Net Zero Investment Framework (NZIF), developed by the Paris Aligned Investment Initiative.

We use a selection of data sources to rate companies on their alignment to a net zero pathway, from Fully Aligned; to those making progress, which are rated as Aligning or Committed; to those that are Not Aligned. This enables us to analyse portfolios and identify which companies to engage on behalf of our clients. Data from the model is being made available to our investment professionals to support company analysis. The model is also used to track progress for those client portfolios committed to apply a net zero approach. For this group of portfolios, we aim to have portfolio companies representing at least 70% of portfolio emissions rated either as aligned or under engagement, as recommended by the NZIF. We also compare a portfolio's overall carbon intensity with a net zero aligned trajectory, based on financed emissions intensity for the portfolio's

benchmark in 2019, and applying a 50% reduction by 2030. We use this as a reference pathway to track and monitor progress, but not as a binding target.

Resources

Much larger central RI team, supporting investment teams through specialist engagement, thematic research and developing tools to aid integration.

We have added dedicated RI analyst resources to some investment teams, i.e., Jacob Robertson as part of the European Equities team.

ESG tools

ESG tools launched in our single order management system (Aladdin®) to help portfolio managers integrate ESG into their processes, including:

- **Net zero** methodology, including net zero tool and engagement guide.
- The RI team and investment team have access to our **SDG mapping tool** which measures company revenue alignment with the SDGs. We map each individual revenue stream of a company to one of the SDG's underlying targets as positive, negative or neutral. We aggregate contributions at the company level and then at the portfolio level, to assess how our products align with the SDG framework.
- **Principle adverse impact (PAI)** model, helping us assess the negative impacts of our investment decisions on sustainability factors.
- We have also built a **deforestation** model to assess the highest risk commodities; soy, palm oil, timber, cattle products, coffee, cocoa, and natural rubber, and sectors which have upstream or operational links to them.
- We have made biodiversity data available so we can monitor our portfolios' exposure to biodiversity risks.

Memberships & Investor initiatives

We achieved **signatory status to the Japan and Taiwan stewardship codes** for the first time in 2023. In 2024, we plan to expand this presence by also applying to the Korea stewardship code.

Also, we established a **streamlined RI Approvals Process** to review participation in membership organisations, collaborative engagements and letters, corporate commitments, and public statements to governments or government/regulatory agencies. This enabled us to:

- Participate in the FRC's UK Corporate Governance Code consultation.
- Join the 30% Club Germany, Mining2030 and the Data Convergence Initiative.
- Renew our Climate Action 100+ membership by confirming our participation in Phase 2 of the programme. A review of our participation in each company and thematic engagement group is ongoing, taking into account what will add value, acting in our clients' long-term financial interests.
- Renew our FAIRR Initiative membership by joining Phase 3 of the working conditions project.

Important Notice

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