

SUSTAINABLE INVESTMENT GUIDELINES THREADNEEDLE UK SUSTAINABLE EQUITY FUND



EXECUTIVE SUMMARY

SUSTAINABLE INVESTMENT THESIS

In a transforming world, investing sustainably is increasingly key both to creating a better future, and to delivering financial reward.

Aligning investing to reflect sustainable themes offers a catalyst for growth – for instance through meeting increased demand for renewable energy, or the growing appetite for healthier food. Furthermore, at a global level, the UN Sustainable Development Goals (SDGs) will not be achieved without significant investment in sustainable products, services and practices. At a local level, the challenges presented by demographic change, housing need, and greening the UK economy remain persistent factors in the public policy agenda.

New solutions are required to achieve these goals. As a pioneer of environmental and social innovation, and a global centre of excellence, the UK is well-placed to capture the related investment opportunities. With our own deep understanding of the UK equities market, and experience in investing for positive social outcomes, we can enable clients to capture these twin rewards: sustainable and financial benefit.

SUSTAINABLE INVESTMENT GUIDELINES IN OUTLINE

Flowing from this sustainable investment thesis, these guidelines outline the following:

SUSTAINABLE INVESTMENT PHILOSOPHY & CRITERIA

Investment philosophy and our definition of sustainable investment

SUSTAINABLE THEMES

How we define our themes, and their alignment with the UN Sustainable Development Goals (SDGs)

RESPONSIBLE INVESTMENT APPROACH

How we identify companies with strong ESG characteristics, and the role of active ownership

VALUES FRAMEWORK

Approach to identification of companies offering products or services we consider to be at odds with sustainable development and client expectations

SUSTAINABLE INVESTMENT PHILOSOPHY & CRITERIA

SUSTAINABLE INVESTMENT PHILOSOPHY

Our philosophy outlines how we action our sustainable investment thesis: our strategy for delivering sustainable and financial benefits.

We reject market short-termism

Given the impact of longer-term sustainable themes, short term profits do not reflect the fundamental value of a business. Conversely, short-term reduction in profits – e.g. due to investment in the delivery of sustainable solutions of the future that pay off only over the longer term – can provide an opportunity.

We take a longer-term view towards a better future

We look for sustainable businesses, those with products and services which benefit from and contribute to sustainable development, with sustainable economic returns and discipline around valuation. Given the greater capacity of smaller and mid-cap companies to innovate and exploit new markets, these form an important component of the Fund – the opportunity to drive innovation today towards a better future.

We look for companies exhibiting standards and discipline

Understanding the internal standards and discipline within a business is vital within a holistic view of its approach to sustainability. This encompasses internal environmental, social and governance (ESG) issues, as well as financial stewardship. Leadership and improvement on these issues can signal future financial success, whilst creating a more sustainable, green and inclusive economy.

SUSTAINABLE INVESTMENT CRITERIA

Flowing from this sustainable investment philosophy, our sustainable investment criteria comprise the following:

Sustainable themes

We maintain a primary focus on companies exposed to sustainable themes through their products and services. These are best positioned to benefit from, and contribute to, a sustainable future. At minimum, these will comprise 75% of the Fund.

ESG quality

An additional focus is on ESG quality – up to 25% of the Fund represents companies exhibiting best-in-class practices notwithstanding current exposure to sustainable products and services (although these companies must not materially detract from sustainable themes). ESG also provides a lens on quality and risk management across the Fund. We typically avoid companies with entrenched poor practices, but may invest where we believe there is scope for related engagement to drive improvements.














Sustainable and ethical exclusions

To underpin the Fund's sustainability focus, we exclude companies offering unsuitable products and services i.e. those at odds with the fundamental concept of advancing sustainable development, inclusion of which we consider would not be consistent with the expectations of investors in the Fund: this is consistent with the criteria which the Fund has employed since launch.

SUSTAINABLE THEMES

At a global level, the UN Sustainable Development Goals (SDGs) outline a number of sustainable development priorities and aspirations looking out to 2030, for support by both the public and private sectors. At a local level, challenges such as demographic change, housing need, and greening the UK economy also require solutions. Together these necessitate significant investment in, and support of, sustainable products, services and practices – indicative of a positive policy and market environment for companies targeted by the Fund.

Our eight sustainable themes are aligned with the UN Sustainable Development Goals (SDGs), translated for use in an investment context. These themes are shown below, alongside a primary SDG with which they align (although we look across all SDGs when assessing companies in the Fund) and a relevant opportunity for UK equities.

Theme	Primary SDG	Trends & Opportunity
 Health, Wellbeing & Food Security	Good Health & Wellbeing 	Ageing population & most UK adults overweight or obese → health & lifestyle must change
 Education & Training	Quality Education 	14% jobs in OECD countries ‘highly automatable’ → need to repurpose education & work*
 Community Formation & Support	Sustainable Cities & Communities 	High property prices & affordable housing gap → need sustainable & affordable solutions
 Financial & Technological Inclusion	Reduced Inequalities 	>2 billion people (1.5 M in Britain) lack basic banking → technology can change this
 Energy & Climate Transition	Affordable & Clean Energy 	UN agreement to limit global warming → UK well-positioned for off-shore wind
 Inclusive Work & Economic Development	Decent Work & Economic Growth 	Women working to full potential → could unlock \$28 T to annual global GDP by 2025*
 Regeneration & Infrastructure	Industry, Innovation & Infrastructure 	Real estate regulation increases → major UK property firms lead sustainability performance
 Sustainable Resource Management & Transformation	Responsible Consumption & Production 	Pollution concern & conventional car ban → strong UK environmental engineering

*Sources: OCEC & McKinsey estimate. UN logos do not imply endorsement.

When assessing a companies’ exposure to our themes we identify both current revenue exposure to the themes as well as strategy and innovation supporting delivery of sustainable outcomes. Importantly, we do not just consider positive exposure, but net exposure (positive less negative) across all products and services as they relate to the themes. As outlined above, 75% of the Fund must be positively exposed to these themes on a net basis. At minimum, all invested companies must be neutrally exposed or transitioning towards positive exposure to these themes (e.g. a food and beverages company repositioning their portfolio towards healthier food).

Companies identified as no longer meeting the SIG are expected to be sold shortly afterwards.

RESPONSIBLE INVESTMENT APPROACH

ESG QUALITY

Leadership and improvement on ESG and stewardship issues can signal future success, whilst creating a more sustainable, green and inclusive economy. Consequently, up to 25% of the Fund may represent companies selected for their strong ESG and Stewardship practices.

ESG and stewardship also provide a lens on quality, risk management and the mitigation of negative externalities – hence relevant for all companies in the Fund. We avoid companies with entrenched poor practices.

In identifying the strength of a company's ESG and stewardship practices we take the following approach:

- **Focus on a few material ESG factors** – drawing on established research and the work of the Sustainability Accounting Standards Board (SASB) to identify relevant ESG factors for each industry.¹
- **Respond to change** – look to identify changes as they occur, even in anticipation of them
- **Incorporate stewardship factors** – such as accounting transparency and prudent capital allocation as part of our wider sustainability lens

To implement this approach, we undertake not only our own research but also use innovative tools. In particular our proprietary Responsible Investment (RI) model incorporates all the factors mentioned above and has been back tested to show positive results, both in correlation with alpha generation, and in loss avoidance.

ACTIVE OWNERSHIP

We also take the opportunity to engage with companies to better understand their perspectives, to offer input as responsible stewards and, as appropriate, to seek improvement in practices. This is particularly important for smaller companies, which typically have weaker governance arrangements as compared to larger peers.

Equally, we use our voice in voting at shareholder meetings, where appropriate, to send signals to management. Voting processes and policies reflect not only traditional governance issues, but also wider sustainability matters – such as company approaches to climate change and diversity.

For further information on our Responsible Investment approach across the firm, including engagement and our firm-wide voting policy, please see our Responsible Investment website.²

¹ Further information, including their full industry mapping of material factors, is available online.

² <http://www.columbiathreadneedle.co.uk/investment-capabilities/governance-and-responsible-investment>

VALUES FRAMEWORK

To underpin the Fund's sustainability focus, we exclude companies offering unsuitable products and services, or assessed as worst-in-class in terms of ESG management and controversies. Screening is conducted quarterly, and safeguards put in place in collaboration with our mandate monitoring team, to avoid breaches. These criteria clarify and extend those outlined at the Fund's inception. One addition of note is our approach to fossil fuels.

Community Formation & Support

- **Weapons** – controversial weapons manufacturers; companies that generate 5% or more in revenue from the manufacture of other weapons or from weapon support systems or retailing of weapons
- **Gambling** – companies that generate 5% or more in revenue from gambling products or services

Inclusive Work & Economic Development

- **Adult Entertainment** – companies that generate more than 5% in revenue from adult entertainment products

Health, Wellbeing & Food Security

- **Alcohol** – companies that generate 5% or more revenue from producing alcoholic beverages; or 15% of revenue or more from their sale
- **Tobacco** – companies that produce tobacco and any company that generates 15% of revenue or more from selling or distributing tobacco products

Energy & Climate Transition

- **Fossil fuel production & mining** – Companies whose primary business is the exploration, production and commercialisation of fossil fuels, or derive over 5% revenue from thermal coal mining.³

ESG Quality

- **Worst in class companies avoided** – companies flagged as worst-in-class by relevant ESG Ratings.⁴

Controversies and Norms

- **Companies with severe and significant controversies** that amount to a breach of the UN Global Compact.⁵

Additional areas of potential client concern

- **Genetically Modified Organism (GMO) Malpractice** – companies that are producing genetically modified seeds, crops and genetically modified organisms for agricultural use of human consumption, unless in specific circumstances where we are confident of fair business practice and providing there are no substantive ESG controversies, related to the firm.⁶
- **Nuclear Power** – companies that derive 15% or more in revenue from nuclear related products or nuclear energy production.

³This includes oil and gas exploration and production, pipeline, refining, trading, distribution and power generation. It excludes oil equipment and services, as there are cases where such companies may have an explicit focus on assisting clients in furthering their safety and energy performance.

⁴MSCI ESG Research is our current provider of choice. Therefore any company attained their lowest ESG rating will be excluded.

⁵The UN Global Compact covers four areas of basic business standards, in relation to Human Rights, Labour Rights, Environmental Degradation and Corruption. MSCI ESG Research is our current data provider is making this assessment.

⁶This refers specifically to genetic modification (alteration in ways not innate to an organism), rather than gene editing (precise activation or deactivation of genes innate to an organism). At minimum, this currently bars investment in companies flagged by MSCI as B (antepenultimate score) or below, or with controversies of Orange (antepenultimate flag) exposed to GMO.

To find out more visit
COLUMBIATHREADNEEDLE.CO.UK

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested. The Fund aims to invest in companies which deliver sustainable outcomes and in doing so adheres to a set of Sustainable Investment Guidelines. The Guidelines will affect the Fund's exposure to certain sectors, which may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions. The investment policy of the Fund allows it to invest in derivatives for the purposes of reducing risk or minimising the cost of transactions. The Fund may exhibit significant price volatility.



Important information: Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. Threadneedle Specialist Investment Funds ICVC ("TSIF") is an open-ended investment company structured as an umbrella company, incorporated in England and Wales, authorised and regulated in the UK by the Financial Conduct Authority (FCA) as a UCITS scheme. This material is for information only and does not constitute an offer or solicitation of an order to buy or sell any securities or other financial instruments, or to provide investment advice or services. Subscriptions to a Fund may only be made on the basis of the current Prospectus and the Key Investor Information Document, as well as the latest annual or interim reports, which can be obtained free of charge on request, and the applicable terms & conditions. Please refer to the 'Risk Factors' section of the Prospectus for all risks applicable to investing in any fund and specifically this Fund. The above documents are available in English, French, German, Portuguese, Italian, Spanish, Dutch (no Dutch Prospectus), Swedish (for the Key Investor Information Document only) and free of charge on request from Columbia Threadneedle Investments, Client Services department, PO Box 10033, Chelmsford, Essex CM99 2AL. This document is not investment, legal, tax, or accounting advice. Investors should consult with their own professional advisors for advice on any investment, legal, tax, or accounting issues relating to an investment with Columbia Threadneedle Investments. The research and analysis included in this document has been produced by Columbia Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice and should not be seen as investment advice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed. References to Columbia Threadneedle or 'The fund manager' should be read as Threadneedle Investment Services Limited (TISL) Issued by Threadneedle Investment Services Limited. Registered in England and Wales, Registered No. 3701768, Cannon Place, 78 Cannon Street London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.
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