

SOCIAL INVESTMENT GUIDELINES THREADNEEDLE UK SOCIAL BOND FUND



EXECUTIVE SUMMARY

SOCIAL INVESTMENT THESIS

Our Fund unlocks the full potential of bonds to deliver both financial returns and positive social outcomes.

As public and private sectors look to improve social issues through financial markets we see financial and social benefit as increasingly interlinked.

The UK faces many social challenges – from persistent pockets of deprivation, to an ageing population, to the need to transition to a greener and more prosperous economic system. For instance:

- 8% of people are in poverty¹
- Three million people are undernourished
- 40,000 people die from air pollution every year
- 5% of young people in north-east England are not in employment, education or training

But there are catalysts and opportunities for change. For instance, the government-appointed Taskforce for Growing a Culture of Social Impact Investing in the UK is actively working on implementing its recommendations, which have been endorsed by the government, in better aligning investment with social needs.²

Business solutions are also critical to social innovation, whether in increasing the provision of affordable housing and healthcare, or contributing to greener economic growth – and many of them turn to the bond market to help scale up such innovation.

This provides opportunities for investors to participate in, and benefit from, the targeting of social outcomes. Through our deep understanding of the UK fixed income market, and our proven experience in investing for positive outcomes, we can enable clients to capture the twin reward of social and financial benefit.

SOCIAL INVESTMENT GUIDELINES IN OUTLINE

How we action our social investment thesis throughout our investment process is highlighted below:

TOP DOWN: SOCIAL UNIVERSE CREATION

How we shape a Social Universe of potential bonds, and exclude those with negative social characteristics

BOTTOM UP: POSITIVE INCLUSION

How we target, assess and scrutinise bonds contributing to positive social outcomes

ONGOING: GOVERNANCE, MONITORING & REPORTING

How our governance, monitoring and reporting enhance and evidence our social focus

¹ All facts sourced from UKSSD, a cross-sector network of organisations who work together to drive action on the UN Sustainable Development Goals in the UK <https://www.ukssd.co.uk/the-sdgs>




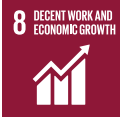


² We are involved in the work of the Taskforce as committee members.

TOP DOWN: SOCIAL UNIVERSE CREATION

SHAPING A SOCIAL UNIVERSE

We start by shaping a Social Universe. This focuses on identifying categories of bonds with higher potential for delivering social outcomes, in line with our eight areas of social outcome (which have been developed by our social partners Big Issue Invest). Some additional screening is also applied in certain areas. One example is in the area of financial inclusion. The additional screen ensures that only those financial services companies with higher social potential (eg, legally run in the interest of their members; Green, Social or Sustainability bonds) are included. Below we illustrate the process, indicating how bonds map to specific outcome areas, and the related additional screening and potential alignment of outcomes to a UN Sustainable Development Goal (SDG).

Table 1: Universe Construction

Social Outcome Area	Outcome Area Description	Illustrative Mapped Bond	Potential SDG Alignment
Housing and Property	Increased supply of affordable, good quality homes for people on low incomes, key workers and students	Social Housing Retail Charity Bonds	
Health and Social Care	Improving quality and accessibility of health and social care facilities and services; facilitating financing of healthcare services through insurance products	Healthcare	
Education, Learning and Skills	Supporting wider participation in higher education and promoting social mobility; increasing quality of education for all	Universities	
Employment and Training	Supporting provision of good jobs, particularly in areas of high unemployment; improved employment opportunities and skills development for young people	Retail Support services	
Community Services	Increased access to community facilities and services that improve individual and local well-being	Local government Supranational – community focused	
Financial Inclusion	Universal access to affordable financial services that support decent standards of living	Financials	
Transport and Communications Infrastructure	Improvements in the quality and access to transport and communications infrastructure and services	Transportation Communications services	
Utilities and the Environment	Supporting the provision of affordable and sustainable utilities provision, including water, waste and energy services	Utilities Green/Sustainability Bonds	

UNIVERSE EXCLUSIONS

The consequence of our positive social focus is that some categories of bond are excluded, such as those originating from industries or issuers which we consider offer minimal social or sustainability benefits in the target region (UK), or which represent a high risk of adverse impacts. Where possible, we go down to the bond level. For instance, while UK sovereign bonds are excluded, an equivalent labelled Green, Social or Sustainability bond would remain eligible. Geography is also an important lens in some sectors. For instance, while both global and UK-based transportation issuers are present in our base “UK” index, only the latter are likely to further outcomes in the UK.

Table 2: Sectors/bonds excluded from Universe Creation

Minimal or unusual social benefit in target region (UK) ³	High risk of adverse social and sustainability impacts
Basic Industry	Aerospace/Defense
Beverage	Air Transportation
Food Wholesale	Automotive
Foreign agencies	Energy
Hotels	Capital Goods
Information Technology	Central Government
Non-UK Communications Services (& Cable & Satellite TV)	Gaming
Non-UK Financials, and those without social focus	Metals/Mining
Non-UK Transportation	Steel Producers/Products
Personal & Household Goods	Tobacco

MINIMUM STANDARDS

Finally, we exclude from the Universe (and indeed all those entering the Fund), according to the following principles and criteria, which are considered general minimum requirements:⁴

- 1. Norm Adherence:** we exclude on evidence of violation of key norms and standards⁵
- 2. Sustainable Energy Focus:** we avoid those with material revenue from nuclear energy and coal⁶
- 3. Health Enhancement:** we have minimal tolerance for tobacco production and low tolerance for alcohol⁷
- 4. Social Cohesion:** we exclude those with material revenue from adult entertainment or gambling⁸
- 5. Weapon Avoidance:** we avoid weapons and firearms, with zero tolerance for controversial weapons⁹

Green, Social and Sustainability bonds may be exempt, given that inherent outcomes and ESG risk profiles often differ substantially from those of the issuer. However, there are cases where we will not invest in any circumstances.¹⁰

³ From time to time, particular issuers in these categories may be eligible for inclusion – for instance food company with a strong social, health or environmental focus.

⁴ Green, Social and Sustainability bonds are generally exempt from exclusions, given that their outcomes and ESG risk profiles often differ substantially from their owner.

⁵ The UN Global Compact; ILO Core Conventions; Child Labour; Bribery and Fraud; Severe Environmental Controversies.

⁶ Over 10% revenue related to: thermal coal generation, coal mining sales, or nuclear energy generation.

⁷ Tobacco production over 1% sales; alcohol 5%, the Universe also excludes classified tobacco or alcohol producers.

⁸ Adult entertainment or gambling exposure over 5% sales.

⁹ Production of conventional weapons or firearms for military or civilian markets over 1% sales; all related sales and services over 5% revenue; any material linkage to controversial or nuclear weapons: landmines; biological, chemical & nuclear depleted uranium. This is a more stringent extension our firm-wide Controversial Weapons policy, which can be found in our core Responsible Investment policy.

¹⁰ These pertain to companies which: derive material revenue from tobacco or weapons production, have violated the UN Global Compact, have experienced ESG issues so material to pose a risk to the credibility of any social outcome, the viability of the business or the reputation of our strategy.

BOTTOM UP: POSITIVE INCLUSION

Our bottom-up social assessment process further ensures that our strong positive inclusion focus is maintained.

The assessment process follows a methodology developed by Big Issue Invest; we assess each bond against positive screening criteria related to six key components:

1. **Use of finance** – this assesses how an issuer will spend the proceeds from the bond (eg, for general purposes, refinancing or specific projects). A direct relationship with an outcome (for instance through a Green, Social or Sustainability bond) may increase the overall social performance rating.
2. **Primary outcome area** – to be eligible for the Fund, a bond must be supporting one of the social outcome areas outlined in Table 1 and making a meaningful contribution to achieving that outcome. Under this section alignment with a particular UN Sustainable Development Goal (SDG), and where possible the relevant target/indicator is noted.
3. **Secondary outcome area** – contribution to a secondary outcome area is not a requirement for inclusion in the Fund. However, making a meaningful contribution to a secondary outcome area (and at least one of its key outcomes) may in some cases contribute to the overall score.
4. **Geographical focus** – this reflects the fact that some areas of the UK are particularly underserved. The UK Index of Multiple Deprivation is a key source in this analysis, but other factors may also be considered where pertinent – for instance areas of greatest housing need for Affordable Housing.
5. **Social intensity** – this pertains to the potential to deliver inclusive and sustainable development with a focus on who benefits. Within this, socio-economic disadvantage is a key consideration, but other relevant factors may include age group, disability status, or employment status.
6. **ESG risk assessment** – this notes the overall ESG performance of the issuer at time of issuance. This enables the analyst to outline any ESG or reputational risks which might impact the social credentials of the investment and to fully consider whether it merits inclusion in the Fund. Compliance with minimum standards (noted above) is also determined.

Where possible we seek to engage with issuers to support the assessment process, or to offer suggestions as to how to more fully leverage their capacity to generate social outcomes (for instance, we have encouraged many issuers to consider Green, Social or Sustainability bonds).

The social assessment process is primarily undertaken by the Responsible Investment team, but new bonds are also reviewed by the Social Advisory Committee. Overall, the process generates a discrete social assessment of Low, Medium or High which can be used to compare bonds addressing different social needs.

ONGOING: GOVERNANCE, MONITORING & REPORTING

Governance structures, monitoring mechanisms and reporting commitments are in place to evidence and ensure our ongoing social focus.

GOVERNANCE & MONITORING

The Social Advisory Committee plays a vital role in reviewing, challenging, advising and monitoring the Fund. Ongoing monitoring checks are undertaken by the Responsible Investment team.

Key issues and assessments are discussed on a quarterly basis at the Social Advisory Committee. This comprises members nominated by our social partner, Big Issue Invest, and Columbia Threadneedle, and is chaired by an independent member. The structure is such that Columbia Threadneedle representatives do not have a majority.

In advance of each Social Advisory Committee the Responsible Investment team undertakes portfolio screening to ensure that minimum requirements continue to be met. Any non-compliance or high risk of non-compliance is highlighted to the Committee.

In addition, we have a 'retirement period', so that each bond or issuer will be reviewed at least every four years. This provides an opportunity to more fully assess whether the social credentials of an issuer have changed since initial investment.

The Panel has right of referral on the final assessment. Should a bond be considered ineligible or no longer eligible for the Fund, the Fund Manager will draw up and implement an action plan comprising an exit strategy in the best interest of the underlying investors.

REPORTING

Finally, transparency of outcomes and impact is a core part of our commitment.

We commit to reporting on the impact of our Fund on an annual basis. This will be done through an independent report undertaken by our social partner, Big Issue Invest, or whomsoever they select as an agent acting on their behalf.

In addition, we provide frequent commentary to investors on the social characteristics of the Fund, changes, and new holdings within it. We produce regular content related to the Fund on our website, through our Responsible Investment Quarterly Reports, thought leadership and through third-party sources.

At an organisational level, we are committed signatories to the UN Principles for Responsible Investment (PRI), and are annually assessed by them on our approach to Responsible Investment.

To find out more visit
COLUMBIATHREADNEEDLE.COM

Key Risks

Past performance is not a guide to future returns and the Fund may not achieve its investment objective. Your capital is at risk. The value of the Fund may fluctuate in response to the performance of individual securities and general market conditions and investors may not get back the sum originally invested. The Fund is rated medium to low level of volatility (how much the value of the Fund goes up and down). The lowest category does not mean a risk-free investment. 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 assets that are deemed to be supporting and funding socially beneficial activities and development and utilises a Social Assessment Methodology. This will affect the Fund's exposure to certain issuers, industries, sectors, and regions, and may impact the relative performance of the Fund positively or negatively, depending on whether such investments are in or out of favour. The Fund invests in securities whose value would be significantly affected if the issuer refused, was unable to or was perceived to be unable to pay. The Fund holds assets which could prove difficult to sell. The Fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities. Changes in interest rates are likely to affect the Fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa. The Fund may invest in derivatives with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the Fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the Fund. All the risks currently identified as being applicable to the Fund are set out in the "Risk Factors" section of the prospectus. Please read the Key Investor Information Document and the Fund Prospectus if considering investing.



Important information: Columbia Threadneedle Investments does not give investment advice. If you are in any doubt about the suitability of any investment, you should speak to your financial adviser. Data as at 31 March 2019, unless otherwise specified. 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. Your capital is at Risk. Threadneedle Opportunity Investment Funds ICVC (TOIF) 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 Non-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 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 can be obtained free of charge on request from: Columbia Threadneedle Investments PO Box 10033, Chelmsford, Essex CM99 2AL. 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. The fund characteristics described above are internal guidelines (rather than limits and controls). They do not form part of the fund's objective and policy and are subject to change without notice in the future. 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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