Statement on principal adverse impacts of investment decisions on sustainability factors

A. Summary

Columbia Threadneedle Investments EMEA (CTI EMEA) considers principal adverse impacts (PAIs) of its investment decisions on sustainability factors. This statement on principal adverse impacts on sustainability factors applies to the assets managed by the regulated subsidiaries whose parent company is Columbia Threadneedle Investments UK International Limited (formerly trading as BMO GAM EMEA) (CTI UK IL) and the group of regulated subsidiaries whose parent company is TAM UK International Holdings Ltd (TAM UK IHL), with the exception of Pyrford International Limited.[1]

Given the separation from investment decision making for units in a collective investment scheme, or assets held within a discretionary portfolio mandate, in each case managed by a third-party manager or sub-manager outside of our group, these assets are not treated as in scope of this statement. This statement was approved in June 2022 by the relevant governance committees for the regulated entities that they represent and applies from 1 July 2022 to 30 June 2023.

The PAI framework in the Sustainable Finance Disclosure Regulation (SFDR)[2] does not currently have indicators covering all asset classes that we manage. As such, this statement only applies to the following asset classes:

1) Listed Equities
2) Corporate Debt
3) Sovereign Debt
4) Private Equity
5) Infrastructure
6) Real Estate

Under SFDR CTI EMEA considers 18 of the mandatory indicators applicable to companies, sovereigns, and real estate assets. In addition, we have selected six additional climate and other environment-related indicators to consider, two from each asset class as detailed in table 1.

[1] This statement does not seek to opt individual financial products into a product level framework for PAIs. Where relevant, separate disclosures will be made to this effect.
[2] The Sustainable Finance Disclosure Regulations (EU) 2019/2088.

Table 1

Scope	Theme	PAI Metric by Table Number
Investee Companies	**Mandatory Indicators**	
	Greenhouse gas emissions	1.1. GHG emissions
		1.2. Carbon footprint
		1.3. GHG intensity of investee companies
		1.4. Exposure to companies active in the fossil fuel sector
		1.5. Share of non- renewable energy consumption and production
		1.6. Energy consumption intensity per high impact climate sector
	Biodiversity	1.7. Activities negatively affecting biodiversity sensitive areas
	Water	1.8. Emissions to water
	Waste	1.9. Hazardous waste and radioactive waste ratio
	Social and Employee Matters	1.10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
		1.11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
		1.12. Unadjusted gender pay gap
		1.13. Board gender diversity
		1.14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)
	Voluntary Indicators	
	Environmental	2.15. Deforestation
	Social and Employee Matters	3.7. Incidents of discrimination
Sovereign Investments	**Mandatory Indicators**	
	Environmental	1.15. GHG Intensity
	Social and Employee Matters	1.16. Social violations
	Voluntary Indicators	
	Governance	3.21. Average corruption score
		3.24. Average rule of law score
Real Estate	**Mandatory Indicators**	
	Fossil Fuels	1.17. Exposure to fossil fuel through real estate assets
	Energy Efficiency	1.18. Exposure to energy-inefficient real estate assets
	Voluntary Indicators	
	Greenhouse gas emissions	2.18. GHG emissions
	Energy Consumption	2.19. Energy consumption intensity

B. Description of the principal adverse impacts on sustainability factors

Columbia Threadneedle Investments EMEA believes in the importance of taking a responsible approach to investment. Part of this approach includes considering how the investment decisions we make for our end clients might have material negative effects on sustainability factors. Sustainability factors are environmental, social and employee matters, respect for human rights, and anti-corruption and anti-bribery matters.

The EU's PAI framework sets out mandatory and voluntary adverse indicators which investors should consider and report against. Principal adverse impacts are defined by the European Commission as those factors that have "negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity." From 1 July 2023 we will begin reporting on each of the PAI metrics (where data is available) with a description of our actions taken and planned actions or targets for the next period.

Selecting additional PAI indicators

Where we elect to voluntarily report against a PAI we have selected indicators given their probability of occurrence and the severity of those principal adverse impacts, including their potentially irremediable character as described below.

We have selected material environmental activities to consider for this reference period without which we believe climate aspirations cannot be achieved. These include:

- Deforestation – Addressing the impact of deforestation and the loss of a primary carbon sink (Corporates PAI 2.7)
- Greenhouse Gases – Greenhouse gases are a significant impact from real estate, which if not reduced will impact the ability of industries to achieve Net Zero targets (Real Estate PAI 2.18)
- Energy Reduction – Energy usage is a significant and on-going impact from real estate. Reducing energy usage and scarce resources particularly fossil fuel usage is critical to reducing the negative environmental impacts (Real Estate PAI 2.19)

When assessing social issues, we consider the impact of the issues and the alignment with key frameworks such as the United Nations Sustainable Development Goals (UNSDGs):

- Discrimination – Diversity and inclusion goals are conducive to a more sustainable and inclusive society (Corporates PAI 3.7)
- Corruption – Corruption, particularly where systemic, exacerbates many of the PAIs and can increase hardship for citizens of countries as it can undermine institutions, aggravate fair access to resources, and increases inequality. (Sovereign PAI 3.22)
- Rule of Law – The rule of law assesses if people and institutions have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. These facets are significant by virtue of the scope of their impact and are critical to create a safe and just society. (Sovereign PAI 3.24)

Voluntary PAIs may be subject to change where they are no longer deemed to be relevant, or where we add additional voluntary PAIs.

C. Description of policies to identify and prioritise principal adverse sustainability impacts

Our approach to identification, prioritisation and mitigation of PAIs is set out in our PAI Statement and related active ownership policies and expectation statements. Click here to review our other policies.

The policies are overseen and maintained by the firm's Responsible Investment team in conjunction with investment teams and legal and compliance teams. The PAI framework is supported by responsible investment and investment functions who consider and take actions to mitigate PAIs as appropriate, data and technology teams who support analytical tools and reporting related to the PAIs, and risk, legal and compliance functions who advise and oversee adherence to SFDR.

Identification and prioritisation of PAIs

Our approach to assessing PAIs is based on identifying through our investment and engagement processes investee issuers[3] with poor ESG practices and performance, such as large scale and persistent human rights violations, labour rights violations, environmental pollution or corruption.

We use external ESG-data, company disclosures, public information and our in-house analytical tools and research carried out by responsible investment specialists and investment teams. This is informed by our long history of direct engagement with investee companies, to assess the likelihood of occurrence, scope, and severity of adverse impacts, quality of sustainability management of companies, as well as whether and how adverse impacts can be alleviated.

Across the industry there is a shortage of objective data relating to principal adverse impacts. As such our analysis is a combination of an absolute assessment of the severity of adverse impacts and a relative assessment of quality of mitigation management, informed by sector and regional best practice. For companies and other investments not covered by any of the data providers, which might be the case for high yield, infrastructure, small- or mid-cap emerging markets companies, as well as direct property investments and underlying companies within private equity funds, our investment teams and RI team may carry out additional research on potential adverse impacts on a case-by-case basis.

In prioritizing which adverse impacts and issuers to focus on, we consider a range of factor such as:

- Assessment of the impact of ESG risk and opportunity factors now and in the future, including financial materiality of risk issues in accordance with industry recognised Sustainable Accounting Standards Board Standards (SASB)
- Investment team and research analysts' judgement and expertise, and
- Previous engagement track record related to the theme
- The significance and severity of adverse sustainability impacts, including scale (gravity), scope and character (whether it is irremediable or not);
- Assessment of likelihood of success for engagement;
- Level of exposure, typically based on size of holding; and
- Client preferences

[3] Throughout this document this always includes companies involved in direct real estate investments as well as underlying companies within private equity funds.

Engagement policies[4]

We are committed to supporting good stewardship through our engagement activities. Our primary purposes in engagement are to support long-term value creation and to mitigate risk. We believe that by encouraging better management of ESG issues by issuers, we contribute to a more resilient global economy and stable financial system, which will ultimately have a positive impact on our clients' long-term performance and risk profile.

Engagement delivers the best outcomes when it focuses on the right issue for the right company or right asset at the right time. Having identified the ESG issues we consider material to the creation and protection of long-term financial, social and environmental value, we use in-depth dialogue to understand issuers and also to encourage issuers to improve performance and move towards best practice in managing those issues. Our engagement encompasses a spectrum of ESG issues, across a range of sectors and geographies. We monitor the outcomes of our engagement and report on our progress to our clients. Where engagements are escalated this is taken on a case-by-case basis.

In encouraging companies to move towards best practice in managing ESG issues, we refer to international codes and standards where relevant (see below), and national corporate governance principles and codes of best practice.

Engagement is performed across the assets we manage, including equities and fixed income, as well as in other alternative asset classes.

[4] Columbia Threadneedle Investments EMEA is in the process of combining and integrating the distinct engagement policies and processes for different parts of the asset management organization including those in place for the business previously trading as BMO GAM EMEA.

E. Description of actions to address principal adverse sustainability impacts

Our approach to address PAIs leverages our existing engagement procedures. When prioritizing the actions to address we assess among other things the materiality of the issue and the likelihood of success, which is based on our engagement history and the size of our holdings. For high risk or severe cases of adverse impact identified, an engagement mitigation strategy may be defined in line without engagement policy and executed through active engagement with issuers to exert influence. Our engagement activities can include contacting issuers by letter, email and/or telephone, meetings with companies at operational, senior management and/or board level and joining initiatives that seek to prevent and mitigate adverse impacts.

In the case of private equity investments where an adverse sustainability impact has been identified, we, may work for example with other investors to seek to agree with the investee company a detailed plan of mitigation or elimination of the adverse sustainability impact, which should cover the initial few months of investment with arrangements for ongoing monitoring thereafter. For example, implementation of living wage into employment contracts.

In cases where mitigation fails, potential escalation measures include collaboration with other investors and votes against management, including votes against individual directors and potential divestment where appropriate.

With respect to sovereign investments, we typically consider PAIs as a direct input to our research framework with a number of the PAIs actively weighted in our models or included in portfolio monitoring. Consideration does not prohibit us investing in these names, for example in emerging markets where countries may perform poorly on PAI indicators. Through our ESG models we can monitor the improvement or deterioration of these factors and integrate this into our investment decisions as appropriate.

PAIs are also considered as part of due diligence for our physical property and infrastructure investments. Where we directly hold a physical asset, such as in the case of some of our property investments, we may be able to exercise more direct control and mitigate principal adverse impacts through actions like investment in refurbishments using renewable materials to improve the energy efficiency and rating of the property as well as engaging with our tenants in relation to applicable PAIs.

We also may address PAIs via exclusions such as in the case of our entity level exclusions[5] related to controversial weapons (PAI 1.14).

We recognize that we do not consider PAIs for all assets in which we invest due to challenges related to data, materiality, or relevance to the investment. While we seek to proactively identify and address the most significant PAIs, limitations continue to exist from a data perspective to readily measure, aggregate and report against the PAIs for all assets under management. We will endeavor to be transparent around our data sources, methodologies and calculations as we begin to report this data from July 2023.

[5] Columbia Threadneedle Investments EMEA is in the process of combining the distinct controversial weapons policies for different parts of the asset management organization including those in place for the business previously trading as BMO GAM EMEA.

F. References to international standards

In addition to national corporate governance principles and codes of best practice, Columbia Threadneedle Investments EMEA takes account of many broadly accepted codes of conduct, statements and best practices.[6] Currently the most important codes and principles are:

- United Nations Guiding Principles on Business and Human Rights
- United Nations Global Compact
- United Nations Sustainable Development Goals
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)
- Principles of Responsible Investments (PRI)
- International Labour Organization Core Conventions
- The Paris Agreement[7]

[6] Including EPRA sustainability, INREV sustainability, ISO14001 and GRESB in respect of real estate.
[7] We are a signatory of the Net Zero Asset Managers Initiative and are committed to a long-term ambition of aligning all our portfolios with the goal of the Paris Agreement of net zero emissions by 2050, working in partnership both with our clients and with our investee companies.

Appendix

	PAI	Indicators	Entity Level Actions Taken and Plans[6]
Investee Companies	Greenhouse gas (GHG) emissions	1.1. GHG emissions 1.2. Carbon footprint 1.3. GHG intensity of investee companies 1.4. Exposure to companies active in the fossil fuel sector 1.5. Share of non-renewable energy consumption and production 1.6. Energy consumption intensity per high impact climate sector	Columbia Threadneedle Investments is committed to an ambition of reaching net zero emissions by 2050 or sooner across all assets under management, as a signatory to the Net Zero Asset Managers Initiative. Our model for listed equities and corporate bonds covers over 7,000 companies and rates companies across eight categories. This results in a priority list of companies held which we will seek to engage with where they may not have set a science based target, are not reducing emissions sufficiently or are not on a pathway to net zero. In addition, Columbia Threadneedle Investment's responsible investment team engage as part of Climate Action 100+ targeting the world's highest greenhouse gas emitters and have on-going sector specific climate projects engaging on topics such as under-writing fossil fuels and risks by banks, coal-phase out in utilities, and climate risk engagements with companies at risk of supply chain disruption owing to the impacts of climate change. Furthermore, we expect companies in climate-exposed sectors to set a long-term ambition to achieve greenhouse gas emissions reductions consistent with net zero global greenhouse gas emissions by 2050 and put in place robust strategies to implement this. These strategies should include bolstering board-level expertise and oversight of climate risks and opportunities, as well as linking executive remuneration to the achievement of climate-related objectives. In 2022, we will engage with companies in companies in key sectors (for example oil & gas, mining, materials, electric utilities, transportation and automotive, and financial institutions) on how executive pay is linked to issuers' climate strategy.
	Biodiversity	1.7. Activities negatively affecting biodiversity sensitive areas	The pace and scale of on-going biodiversity loss poses an existential threat to the ecosystems underpinning our economic and social wellbeing. Through engagement we are exploring corporate approaches to biodiversity in high-impact sectors such as food and beverage, extractives, materials, financials, and transportation to set out strategies, governance, targets and metrics. We also participate in several collaborative investor engagement initiatives on natural capital, biodiversity, and deforestation to leverage our impact.
	Water	1.8. Emissions to water	We engage with companies which may have significant impact on water and hazardous waste (including radioactive waste where relevant). We intend to continue to engage on this theme. For example, our Active Ownership Analysts have a structured engagement programme targeting the largest chemicals companies by market cap, focusing on the following targets as we look towards a sustainable transition within the chemicals sector: 1) Reducing GHG emissions – ensuring Paris-aligned climate strategies are in place; lessening reliance on fossil fuels; and exploring alternative less carbon-intensive feedstocks (bio-based and recycled raw materials; green hydrogen); 2) Minimising harmful effects on local communities – improving waste management practices; enhancing Environment, Health and Safety (EHS) systems to avoid toxic waste infiltrating local waterways; and minimising toxic emissions (VOCs, SO2); 3) Reducing plastic waste – phasing out single use plastics; increasing recyclability of polymers; and investing in recycling technologies to "close the loop" on plastic waste by creating a circular economy.
	Waste	1.9. Hazardous and radioactive waste ratio	
	Social and Employee Matters	1.10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Our expectations for investee companies refer to international codes and standards where relevant, including the OECD Guidelines for Multinational Enterprises and the UN Global Compact (UNGC). ESG ratings and controversy scores take account of these frameworks and they are integrated into our research processes across equity and corporate credits (where available). On a quarterly basis we review engagement progress related to controversies with respect to the UNGC. As part of our engagement programme we engage corporates on key themes related to these conventions including (but not limited to) labour rights, human rights, environmental stewardship, and business conduct. We encourage disclosure of relevant policies to be made publicly available. We intend to continue to engage with companies with respect to breaches and failure to effectively manage these issues.
		1.11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	
		1.12. Unadjusted gender pay gap	We believe companies should seek to collect and disclose, where permissible, relevant data on the composition of the workforce, report on associated pay gaps and set and disclose targets and timelines for improvement where issues are identified. Through research, analysis, and engagement we will continue to monitor data availability related to gender pay gap and may evolve our approach as data becomes available. We also participate in several collaborative investor engagement initiatives on gender specific remuneration policies, as well as pay gap transparency.
		1.13. Board gender diversity	We believe companies should have a suitable diverse mix of skills and perspectives. We may take voting and engagement action against companies who do not have sufficiently diverse boards, or measures in place to address the lack of diversity. We also participate in several collaborative investor engagement initiatives on board diversity.
		1.14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Exposure to controversial weapons is governed by the firm's controversial weapons policies.

	PAI	Indicators	Entity Level Actions Taken and Plans[6]
Investee Companies	Environmental	2.15. Deforestation	An important element of a robust climate change strategy is a well-anchored climate risk management system including a thorough approach (analysis, engagement) to deforestation. We engage with companies which have an impact on deforestation, operating in critical forested locations who are involved in the production or sourcing of agricultural products (e.g. soy, beef, palm oil, timber), as well as financial institutions being involved in respective value chain finance. We will continue to review and enhance our engagement approach in line with our biodiversity engagement programme.
	Social	3.7. Incidents of discrimination	As investors, we believe we can support diversity and inclusion by engaging our investee companies in constructive dialogue to advocate for adoption of practices that address systemic racism, gender inequality and lack of representation in the workforce, reinforcing our engagement with thoughtful use of voting rights where appropriate and supporting industry initiatives and investor collaborations that align with our views to amplify our voice in seeking positive change. We will continue to monitor companies with respect to incidences of discrimination. We will continue to review and enhance our social engagement approach to include systemic change and/or mitigation approaches to incidents of discrimination.
Sovereign Investments	Environmental	1.15. GHG Intensity	Within country ESG scoring models we take account of sovereigns' environmental performance management as a weighted component of the score. This consideration forms part of our overall assessment of the ESG risk of the bond and may impact valuations. As part of our commitment under Net Zero Asset Managers Initiative we will extend our Net Zero Framework to include sovereigns.
	Social and Employee Matters	1.16. Social violations	Our compliance team track countries which are subject to sanctions using a variety of data inputs. We take a nuanced approach to mitigation depending on the nature of the issue including monitoring, engagement and divestment. Restricted investments are coded in our trading systems by Investment Mandate Control to prohibit investment and monitored. We will continue to monitor social violations. We will continue to review and expand our approach to sovereign engagement.
	Governance	3.21. Average corruption score	Within sovereign ESG scoring models we measure the corruption score of a country as an input to our overall assessment of a countries' ESG score. This consideration forms part of our overall assessment of the ESG risk of the bond and may impact valuations. We will further integrate ESG scores and considerations into our sovereign investment processes. We will continue to review and expand our approach to sovereign engagement.
		3.24. Average rule of law score	Within sovereign ESG scoring models we measure the rule of law score of a country as an input to our overall assessment of a countries' ESG score. This consideration forms part of our overall assessment of the ESG risk of the bond and may impact valuations. We will further integrate ESG scores and considerations into our sovereign investment processes. We will continue to review and expand our approach to sovereign engagement.
Real Estate	Fossil Fuels	1.17. Exposure to fossil fuel through real estate assets	Our real estate funds will determine the extent to which their physical assets have exposure to occupiers involved in the extraction, storage, transport or manufacture of fossil fuels, through leasing contracts and present these in terms of proportions of the total net lettable area and total gross asset value of the fund.
	Energy Efficiency	1.18. Exposure to energy-inefficient real estate assets	The firm monitors and discloses portfolio distribution to different energy performance certificate ratings at demise level and by floor area and rental value. The firm aims to increase the proportion of higher rated assets over time through thoughtful acquisition and repositioning of existing stock exploiting conventional market opportunities as a primary intervention strategy.
	Greenhouse gas emissions	2.18. GHG emissions	The indicators will be applied at a whole building level irrespective of the specific circumstances surrounding operational control at individual property assets. Emissions will be determined and reported both at an absolute level and on a like-for-like basis to recognise the fluid nature of property investment and trading activities. Scope 3 emissions generated by building occupiers may need to be estimated in the absence of underlying data being provided. Emissions will also be presented as intensities using floor area as the denominator to allow for deeper comparison particularly between different property sectors. The firm's overall ambition is to reduce GHG intensities across its real estate investments to levels that align with longer-term industry targets which in turn reflect wider ambitions to achieve net zero carbon to support climate change mitigation and adaptation.
	Energy Consumption	2.19. Energy consumption intensity	The indicator will be applied at a whole building level irrespective of the specific circumstances surrounding operational control at individual property assets. Explicit and systematic requests to building occupiers will be made for obtaining energy consumption data but where such data is not made available reference will be made to proxy benchmarks. The firm is motivated to reduce energy demand across its property investment portfolios through physical intervention and energy campaigns to support more efficient use of resources.

[6] The below is a non-exhaustive list of engagement activity undertaken by the entity formerly trading as BMO GAM EMEA, whose parent is Columbia Threadneedle Investments UK International Limited. This entity published a PAI statement for a prior reference period. Reporting against our combined entity level assets under management will begin in July 2023.

To find out more, visit **columbiathreadneedle.com**
or call 0800 953 0134*

*Please note we record calls for your protection and to improve our standards.