COLUMBIA THREADNEEDLE INVESTMENTS

ESG VIEWPOINT

Sustainable Development Goals: A framework for investors

The Sustainable Development Goals (SDGs) were developed in 2015 as a roadmap towards a more sustainable economy and society by 2030.

In 2023, we have reached the halfway point – and a coordinated effort is needed to get the goals on track ahead of 2030.

At Columbia Threadneedle Investments, we have developed methodologies to use the SDGs to analyse potential investment and undertake company engagement. We believe this helps to support the long-term financial performance our clients want and promote positive change.

Awareness of the effect our consumption choices have on the environment and society has never been higher. Increasingly, individuals are striving to make a positive impact, from using reusable coffee cups and reducing reliance on single-use plastics, to driving a hybrid or electric car. There is growing recognition that choices regarding investments and pensions are no different, and that it is possible to choose options aligned with personal values, as well as delivering financial returns.

What are the SDGs?

The SDGs, which replaced the Millennium Development Goals (MDGs), were developed in 2015 by the UN with a variety of stakeholders including from industry, finance and NGOs, and endorsed by all 193 UN member states.

There are 17 high level goals, such as No Poverty, Gender Equality and Climate Action. Each goal has a set of targets setting out specific objectives to achieve the goal, with 169 targets in total. Underlying the targets are 230 indicators, which can help us to determine progress. Since the SDGs came into force in January 2016, they are increasingly being adopted as a common and consistent way to articulate sustainability, by companies and investors alike.

Levels of the SDG framework – example

Goal:

Target:

3.3	By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases

Indicators:

3.3.1	Number of new HIV infections per 1,000 uninfected population, by sex, age and key populations
3.3.2	Tuberculosis incidence per 1,000 population
3.3.3	Malaria incidence per 1,000 population
3.3.4	Hepatitis B incidence per 100,000 population
3.3.5	Number of people requiring interventions against neglected tropical diseases

The role of investors

We believe that the financial sector cannot be a passive bystander to sustainability challenges and should work actively alongside companies and governments within their privileged and trusted position as stewards of capital. Utilising the SDGs as a framework can also provide macroeconomic context of the key sustainability trends that can help shape thinking about future investment opportunities.

Ultimately, achieving the vision of the 2030 Agenda for Sustainable Development, of a secure and thriving environment and society is essential for laying the foundations to long-term global prosperity and investment performance.

Recognising this, a growing number of investors are already working to embed the SDGs in their processes. However, the risk of 'SDG-washing' is also starting to emerge, as concerns are voiced that the SDGs are becoming a way merely to re-badge existing practices, rather than drive genuine change. We believe that by taking the time to develop the approach we set out here, we are avoiding this risk, and turning the SDGs into a practical framework for action.

Transparency about methodologies and approaches is essential to demonstrate and share good practice, and here we set out our work to integrate the SDGs in two core aspects of our own work: the way we identify companies to invest in, and how we conduct our engagement.

> Finance has a critical role to play in achieving the SDGs, by channelling capital towards solutions and driving improvement through engagement with companies

Aligning investments with the SDGs

We see global sustainability trends such as climate change, water scarcity and public health as important drivers that can create long-term growth opportunities for those companies that are able to provide solutions. The SDGs have provided further clarity on how to identify and track these opportunities in a structured way. Our ambition was to use the framework to help us assess whether a prospective investment was contributing to solving some of the world's biggest sustainability challenges, in a way that resonates with our clients. This approach is particularly helpful for funds with specific sustainable investment objectives – or which seek to deliver real world impact – but can be used as a tool across other funds too.

We developed our SDG revenue mapping tool in 2016 and have been reviewing and enhancing our methodology and its use cases since. Rather than simply map how companies align with the 17 SDGs, our model considers the SDG's underlying targets, giving us a far more granular view of companies' alignment.

The model we have created in house uses revenue data from a third-party provider, and we overlay our methodology on top. We analyse the individual revenue streams of portfolio holdings and identify whether the products and services in those business segments have links to the SDG targets. We map the revenue lines to the targets as positive, neutral, or negative.

The ability to apply this granularity is important, as one company may have links to more than one goal and/or target; another may have a business segment that is positively linked, and one that is negatively linked. Through this analysis we have achieved a much deeper understanding of where the exposure lies, both to business areas that support the sustainable development agenda, and to those that are misaligned. Developing an in-house methodology also allowed us to overlay our own interpretation of the many borderline cases that arise; we have an extensive review process to handle these effectively, which can lead to overrides being made at a company or sector level.

We aggregate the data to portfolio level to determine the number of companies – and the value of the portfolio's assets – which are aligned to the SDGs. We have been using the tool as an additional research input since we the developed the methodology and are in the process of applying it to a broader range of our Environmental, Social & Governance (ESG) funds. The output of the model is available to investment teams in our trading and portfolio monitoring systems.

The SDG tool output also helps us and our clients to meet and evidence adherence to regulations. For example, SDG alignment forms part of our definition of Sustainable Investments under Europe's Sustainable Finance Disclosure Regulations (SFDR).

It also forms a key part of our impact reporting for those funds which seek to deliver real world impact or outcomes. An example output of this analysis is summarised on page 5.

1
Break down company revenues by business segment

2
Analyse each revenue line at SDG target level; attribute a link where relevant

3
Aggregate, using weight of holding, to obtain portfolio-level alignment

Developing our SDG revenue mapping tool has allowed us to:

- Conduct granular analysis of how companies are contributing to solving the world's biggest sustainability challenges
- Consider where companies' products and services are at odds with the aims of the SDGs
- Aggregate and report portfolios' overall contributions to the SDGs and their underlying targets
- Meet regulatory requirements, such as to evidence our exposure to "sustainable investments" as defined by the SFDR

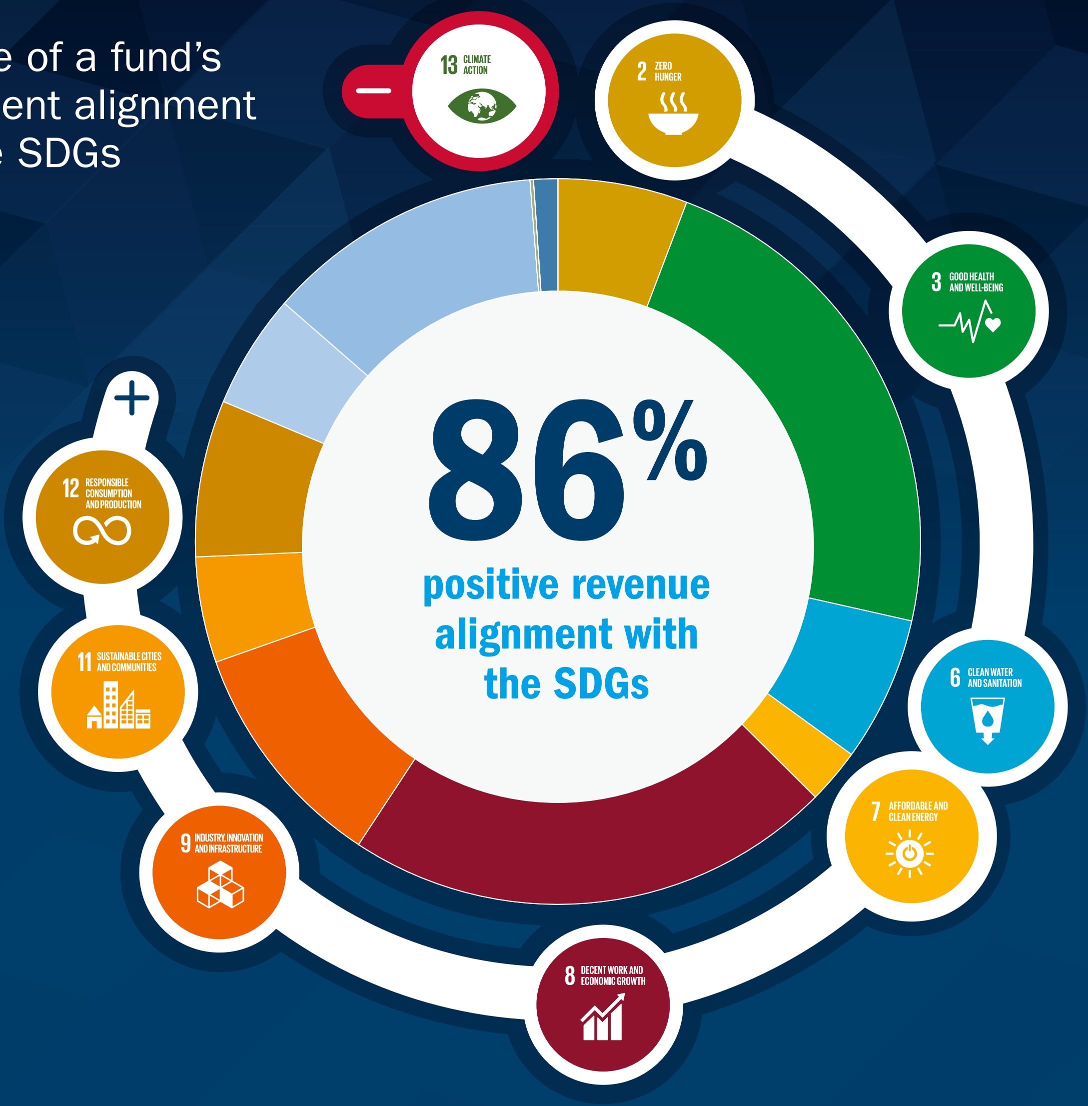
Limitations of our methodology

We feel it is important to be transparent about the limitations of our approach – which isn't a perfect science:

- We are only able to link each revenue line to one SDG target and so have to choose the most relevant target. There may in reality be multiple links, but our approach serves a good proxy, and avoids adding additional complexity to an already complex data set.
- As mapping is done based on a company's products and services, the methodology does not capture a company's conduct or operational processes
- Some revenue streams are not disclosed by companies in a sufficiently granular way for us to link them to the targets. There will, therefore, be revenue lines that are not fully captured – (both positive and negative)

We explore future developments later in this document.

Example of a fund's investment alignment with the SDGs



Revenue alignment breakdown

SDG 2: Zero Hunger		**5.8%**
2.1	End hunger and ensure access to safe and nutritious food	3.6%
2.4	Implement climate-resilient and sustainable food production	2.2%
SDG 3: Good Health and Well-Being		**22.7%**
3.3	End AIDS, TB, malaria and other water-borne and communicable diseases	2.1%
3.6	Halve deaths and injuries from road traffic accidents	0.8%
3.8	Access to medicines and health-care	17.7%
3.9	Reduce deaths and illnesses from pollution and contamination	2.2%
SDG 6: Clean Water and Sanitation		**6.5%**
6.1	Achieve universal access to safe & affordable drinking water	0.1%
6.3	Improve water quality by reducing pollution	0.8%
6.4	Increase water-use efficiency to address water scarcity	5.6%
SDG 7: Affordable and Clean Energy		**2.5%**
7.3	Double the global rate of improvement in energy efficiency	2.5%
SDG 8: Decent Work and Economic Growth		**21.8%**
8.2	Achieve greater productivity through innovation	14.1%
8.10	Increase access to finance	7.8%
SDG 9: Industry, Innovation and Infrastructure		**10.3%**
9.1	Develop resilient and sustainable infrastructure	3.1%
9.3	Increase access to finance for SME's	2.8%
9.4	Upgrade and retrofit industries to increase sustainability	4.4%
SDG 11: Sustainable Cities and Communities		**4.7%**
11.2	Provide access to safe and affordable transport systems	1.5%
11.6	Reduce the negative environmental externalities of cities	3.2%
SDG 12: Responsible Consumption and Production		**7.0%**
12.3	Halve global food waste at the production and consumer level	2.4%
12.4	Manage chemical usage and waste throughout their life cycle	1.5%
12.5	Reduce waste through prevention, reduction, recycling and reuse	3.1%

Other (SDGs less than 2.5%)	5.1%
Total positive	**86.4%**
Neutral	12.4%
Negative	0.2%
Cash	1.1%

Source: Columbia Threadneedle Investments, State Street, Bloomberg, as at 30 June 2023. Designed for illustrative purposes.

Aligning engagement with the SDGs

Engagement is a powerful tool for investors to achieve positive sustainability impacts. We have been engaging companies for more than 20 years, and since 2016 we have been reporting on how this engagement supports the SDGs.

Our engagement programme is shaped around seven priority themes, and over 40 subthemes, each of which corresponds with one or more of the 169 SDG targets. When an engagement or engagement outcome (milestone) is recorded by an analyst, they are prompted to select relevant SDG targets.

Our experience is that companies welcome this development in engagement approach. Increasingly, there is pressure on companies to effectively disclose ESG information and we believe the SDGs provide one framework to streamline this disclosure for use by various stakeholders.

2023 engagement priorities

Deforestation

Climate change and banks

Coal phaseout 2.0

Physical risks of climate change

Emissions and plastic waste

Responsible governance of artificial intelligence

Social audit assurance

Mandatory human rights due diligence

Diversity in clinical trials

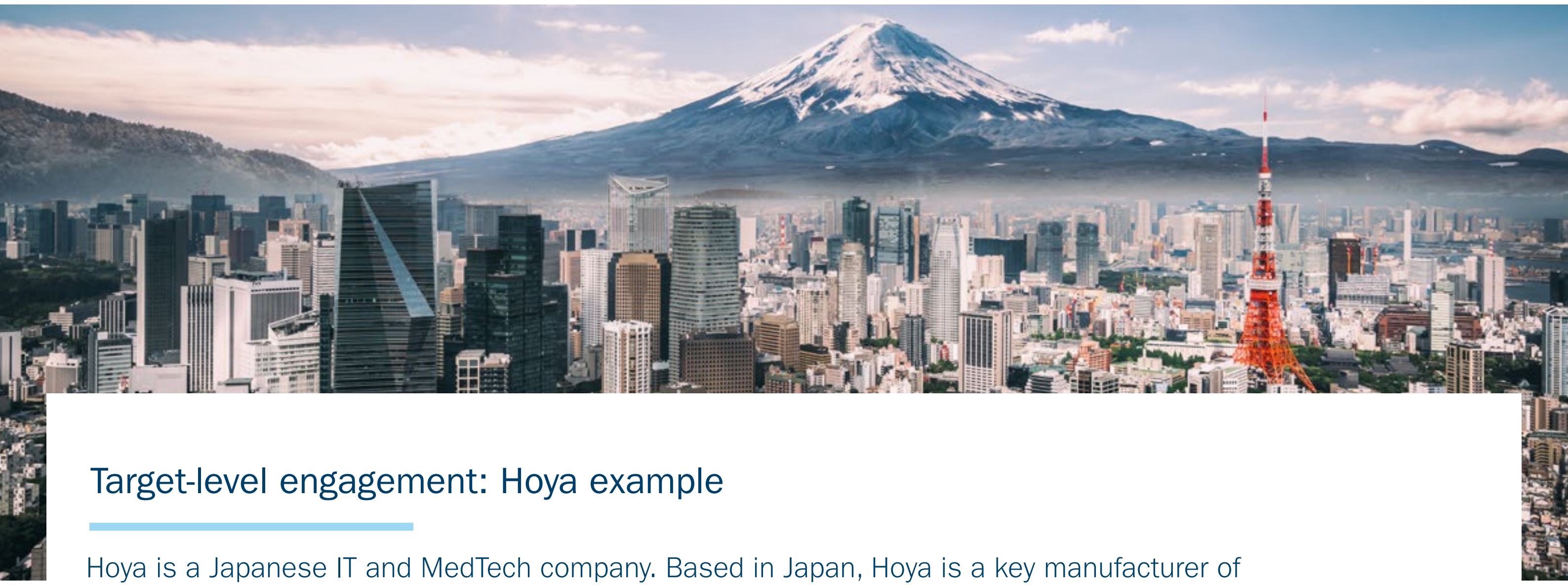
Improved board gender diversity in Asia

Engagement and the SDGs

17 Sustainable Development Goals

169 underlying targets

80 targets we have identified where there is opportunity for engagement



Target-level engagement: Hoya example

Hoya is a Japanese IT and MedTech company. Based in Japan, Hoya is a key manufacturer of eyeglass lenses, contact lenses, and intraocular lenses for cataract operations, supporting healthy and improved vision care for a multitude of people worldwide.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Target 12.6	Dialogue	Change
	Encourage companies to adopt sustainable practices and enhance ESG reporting	**ESG oversight** Board-level oversight of ESG issues	ESG committee formed. Sustainability leadership position created.

3 GOOD HEALTH AND WELL-BEING	Target 3.8	Dialogue	Change
	Access to medicines and health-care	**Healthcare** Identify potential partnerships to increase access to glasses	Two partnerships established

13 CLIMATE ACTION	Target 13.2	Dialogue	Change
	Integrate climate change plans into policies and strategies	**Climate change** Set a new emissions reduction target. Set longer-term greenhouse gas emissions reduction targets. Publish a greenhouse gas emissions reduction target approved by the Science Based Targets initiative (SBTi); Use of on-site renewable energy.	Set emissions reductions target Pledged to join the RE100: a global corporate renewable energy initiative bringing together businesses committed to 100% renewable electricity.

6 CLEAN WATER AND SANITATION	Target 6.4	Dialogue	Change
	Increase water-use efficiency to address water scarcity	**Circular economy** Increase transparency about efforts to reduce water consumption	Improved water disclosures

Using our tool to support a dedicated strategy:
The SDG Engagement Global Equity Strategy

The SDG Engagement Global Equity Strategy aims to provide long-term capital growth and support sustainable development.

Our Strategy invests in a diversified selection of equity and equity-related securities of small and mid-capitalisation companies, which may be located anywhere in the word and be in any industry sector. Our Strategy seeks to achieve positive impact through targeted, impact-focused, active engagement with companies, using the SDG framework.

The overarching philosophy is to:

AVOID

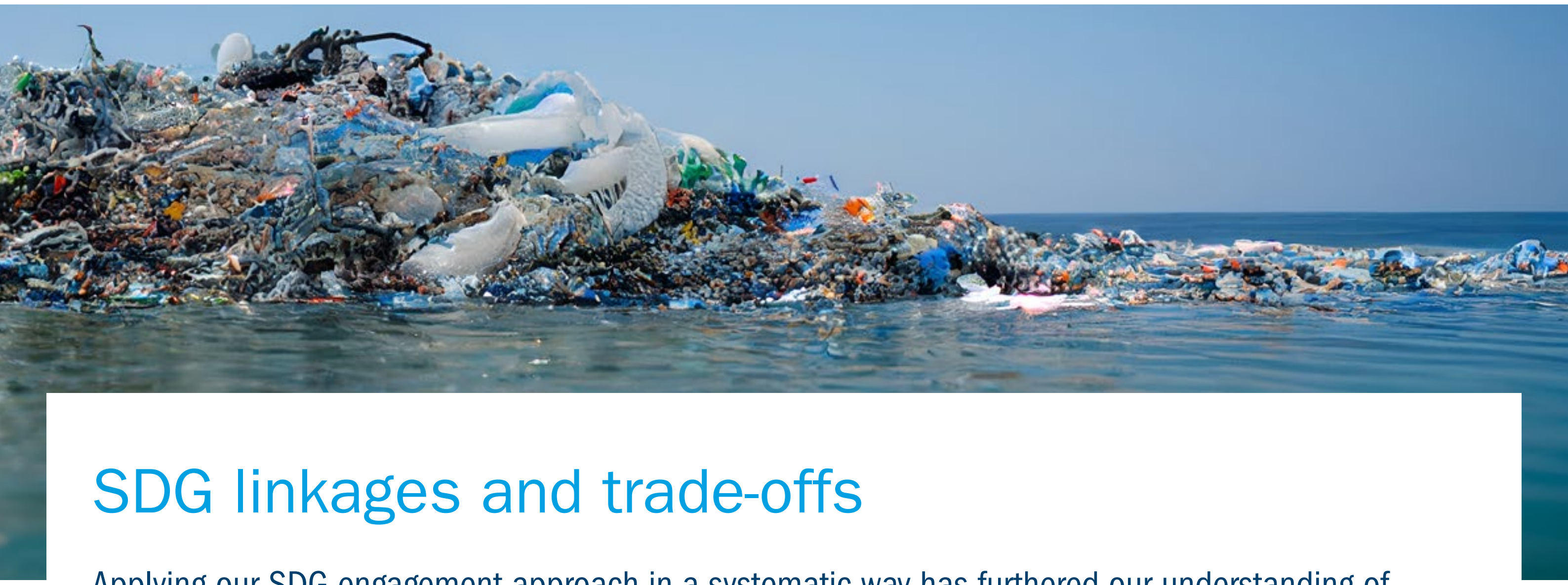
Using a set of exclusion criteria, we avoid investing in companies with socially or environmentally damaging products or unsustainable business practices.

INVEST

We invest in companies that have significant potential to advance the SDGs through their enterprise impact – i.e. through their products/ services and/or through their conduct/ footprint.

IMPROVE

As active owners, we engage with our investee companies on business-relevant ESG issues to drive progress towards achieving the SDGs.

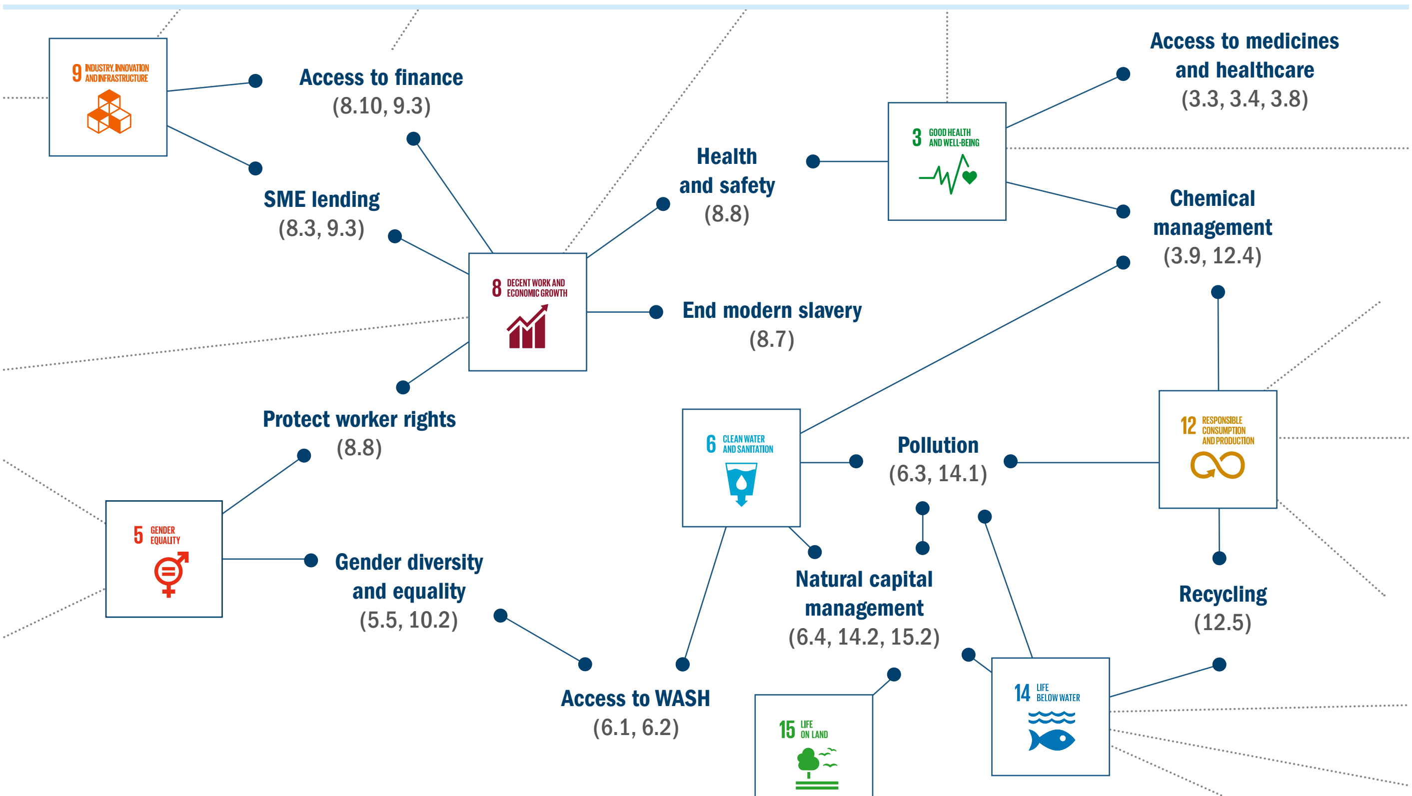


SDG linkages and trade-offs

Applying our SDG engagement approach in a systematic way has furthered our understanding of where there is interconnectivity between the SDGs, as well as possible trade-offs.

For instance, we initiated an engagement programme on ocean plastics, which clearly links to SDG 14 – Life Below Water, and target 14.1 – Prevent and reduce marine pollution of all kinds. We encouraged companies to eliminate unnecessary single use plastic, use recycled content in packaging, and improve recyclability and the supporting infrastructure.

These topics also support target 12.5, which aims to improve recycling and reuse rates. However, a shift to paper and cardboard packaging could put at risk target 15.2, which covers healthy forest ecosystems under SDG 15 – Life on Land. Our engagement therefore emphasises the need for enhanced forest management practices, alongside a plastics strategy, to avoid this potential trade-off.



Source: Columbia Threadneedle Investments, sample data set.

ESG and SDG engagement: overlaps and differences

We also need to be aware of areas which are important to engage with companies on, but which aren't explicitly captured by the SDG framework. When mapping priority engagement themes to the SDGs, there was often a clear overlap between our engagement objectives and the SDGs. In other cases, we had to carefully consider whether links could be drawn. For example:

- **Human rights**: there is no single "human rights" SDG. This does not mean that the SDGs ignore human rights by any means. On the contrary, human rights are relevant to most of the 17 SDGs, with the 30 fundamental human rights in the Universal Declaration of Human Rights covering issues including access to food, water and sanitation, education and medical care, which are clearly covered by the SDGs. In terms of how this links to our engagement, the choice of goal and target will depend on the subject but one human rights topic we engage on is companies' operations in conflict-afflicted regimes, which we see as supportive of SDG 16 – Peace, Justice, and Strong Institutions.
- **Corporate governance**: although we see good governance as an essential building block in creating a more sustainable economy, we do not always see this as having a direct link to a specific SDG. One exception is our engagement on board diversity, much of which has covered gender diversity issues, which we see as supportive of SDG 5 – Gender Equality and target 5.5.
- **Data privacy, cyber security, and responsible artificial intelligence**: these issues are not specifically addressed in the SDG framework but have been rapidly growing in importance as concerns continue to mount about the misuse of personal data by corporations or governments. They are, therefore, relevant to the 2030 Agenda for Sustainable Development. To address the issue of data privacy for example, we decided to go beyond the original meaning of SDG 9 – Industry, Innovation, and Infrastructure by interpreting the infrastructure targets as applying to both digital as well as physical infrastructure and have linked our engagement primarily to target 9.1.
- **Animal welfare**: nowhere do the SDGs specifically target animal welfare, although of course many environmental aims such as the protection of biodiversity and water are critically important in supporting animal life. Engagement on topics such as the well-being of farmed animals is relevant to SDG 2 – Zero Hunger, though this implies that animals are a 'means to an end' of addressing human nutrition rather than being intrinsically valuable. We will continue to engage on animal welfare as an end in itself, whilst recognising the SDG links where relevant.

We seek to achieve positive impact through targeted engagement with companies, using the SDG framework.

Future developments

We intend to continue developing our approach to SDGs, our in-house methodology, and how we use the tool for portfolio construction, engagement and reporting. In particular we aim to focus on the following areas:

Understanding the geography of impact

As work by the Impact Management Project and others has emphasised, understanding impact means not only identifying what the impact is, but also who it affects. The greatest impact is achieved by providing services in parts of the world that have the most urgent needs.

Ideally an impact methodology would integrate geographical mapping so that, for instance, the positive impact of an education services provider would be measured as greater in a country with poor access to education, than in one with nearly universal education already in place.

So far, we have not systematically captured this, due in part to the way data is provided by companies, which often reports at a highly aggregated level (for instance, breaking down revenues by continent rather than country, or by HQ rather than direct operations or supply chain exposure). Our aim is to identify data sources to deepen our understanding of these effects.

Balancing product and conduct

In looking at the alignment of investments with the SDGs we understand that some companies may sell products that are socially or environmentally beneficial, but at the same time could have a negative impact through the way they operate, for instance having poor labour standards or mismanagement of emissions.

Conversely, a company may not be supporting the SDGs directly through their products and services but be providing significant social or environmental benefit through adopting market-leading policies and conduct practices, such as around diversity or efficiency in use of natural resources. It is important to assess both sides of this in a systematic way.

Impact metrics and benchmarking progress

In our ESG Profile and Impact reports, alongside the SDG alignment data, we also report portfolio metrics such as carbon footprint, water use and gender diversity. We aim to continue developing these, and additional impact metrics, as well as monitoring progress in relation to the SDG indicators.

Understanding impact means not only identifying what the impact is, but also who it affects.

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