EU ESG Ratings Regulation Disclosure – Net zero alignment ratings

This document is issued by Threadneedle Management Luxembourg SA ("TMLSA") which is part of Columbia Threadneedle Investments, the global asset management business of Ameriprise Financial, Inc.

This document is published in accordance with the requirements of the Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities (Regulation (EU) 2024/3005) (the "Regulation"). The Regulation introduces a regulatory framework for ESG rating providers. In response, TMLSA and its affiliates have established an ESG ratings assessment framework pursuant to which ESG data, research findings, analytical assessments and other ESG-related information may be used by TMLSA for the purpose of issuing ESG ratings in respect of TMLSA's products.

The information contained herein is current as of the date of publication. The regulatory framework and related guidance continue to evolve, and some matters of interpretation remain open and subject to further clarification. This document may therefore be revised, updated or reissued to reflect future regulatory guidance, clarifications or changes in the law issued after its date of publication.

Net zero alignment ratings

a) The net zero alignment ratings (the "ESG ratings") are produced through a systematic data-driven model and currently cover over 14,000 companies. The ratings methodology uses a range of data sources to appraise companies against 8 metrics (7 for financial institutions) to give them each an overall net zero alignment rating, as set out below. Each ESG rating assesses how many of our expectations across the relevant metrics a company meets, with more stringent standards set for companies in the most emissions intensive industries. The ESG rating is expressed as a category and not a number. The ESG rating categories are:

- **Aligned:** Company meets expectations highly in all relevant categories
- **Aligning:** Company meets core expectations around disclosure, setting targets and strategy
- **Committed:** Company has not yet met these expectations, but has committed to set a science-based target, or has a long-term net zero target
- **Not aligned:** Company does not meet expectations, and has not committed to set a science-based target

We do not provide a rating for companies where insufficient data is available.

More information on our net zero methodology can be found here.

b) We use GICS to classify companies by their industry.

c) To date our model for listed equities and corporate bonds covers over 14,000 companies and draws in data from a range of sources. The model is underpinned by two methodologies;

(i) for "corporates" (non-financials) and (ii) for financial institutions.

These methodologies follow the same overall approach but use different underlying datapoints to assess net zero alignment. We see climate change as a critical issue for financial institutions, but the factors used to judge the adequacy of performance are very different to those for industrial sectors with high direct emissions, given that their impact comes primarily through their lending and investment activities.

Data sources:

- Climate Action 100+ Benchmark (non-financial corporates only)
- Net Zero Asset Owners Alliance (financials only)
- Science Based Targets initiative (SBTi)
- Transition Pathway Initiative (TPI)
- Carbon Disclosure Project (CDP)
- MSCI ESG

The model is updated on a monthly basis, with its underlying datasets following monthly, quarterly and

annual update cadences aligned to the update cycles of each third-party provider. The data providers we use may source some relevant information from disclosures in line with the EU Corporate Sustainability Reporting Directive or disclosures under the EU Sustainable Finance Disclosure Regulation, where available.

d) One of the data sources we use is the Science Based Targets initiative (SBTi), which provides an independent methodology and approvals process for companies to set emissions targets in line with low-carbon pathways. It is used by around 11,000 companies and financial institutions worldwide.

e) The ESG ratings are designed to analyse company alignment with a forward-looking net zero pathway. Once we have established company net zero alignment status, we can analyse how the company-level ESG ratings aggregate to fund level, and what actions we will take to improve alignment over time. The ESG ratings are used in several ways, including:

- as an input into our company research of climate-related risks
- to help us measure our funds' progress towards net zero targets
- to help prioritise opportunities to engage with corporates to encourage improvement in their management of climate transition risks.

f) The ESG ratings assess corporates on 8 metrics (7 metrics for financial institutions) relating to climate transition. These are:

- Ambition
- Interim targets set
- Targets aligned
- Disclosure
- Strategy
- Policy engagement
- Governance
- Climate risk & accounts

g) The ESG ratings are not aggregated into an overall portfolio rating.

h) The ESG rating covers the environmental topic relating to the transition to net zero. This broadly corresponds to certain topics addressed under the European Sustainability Reporting Standard, ESRS E1 (Climate Change).

i) Columbia Threadneedle Investments does not rely on autonomous artificial intelligence ("AI") systems for the rating creation or maintenance; automated tools may be used to support data collection but are subject to appropriate human oversight and governance controls. The data providers from underlying datasets may use AI in their own processes.

j) The ratings are not sold on a standalone issuer-paid basis. Columbia Threadneedle is not remunerated specifically for the provision of ESG ratings. Fees charged to clients relate to broader investment management and related services.

k) Whilst our methodology combines the best quality data sources we can identify, we believe that – as in other areas of sustainable finance – data is only the starting point for deeper analysis. No data source is perfect or can fully reflect the complexities of climate change policies at an individual company. However, data models do enable portfolio analysis to be undertaken on a systematic basis and provide a 'heat map' of where the biggest risks are likely to be – allowing us to prioritise our investment analysis and engagement resources.

We do not provide an ESG rating for companies where insufficient data is available. This often relates to companies in the lowest-impact sectors from a climate perspective, private issuers or small-cap businesses. All of these groups tend to have limited levels of disclosure, and we are unable to provide ESG ratings until sufficient data becomes available.

Recognising that data may be imperfect, and also that new company commitments will take time to show in the data, we also have the ability to override the ESG ratings produced by the model where there is publicly available evidence of a company's policy.

l) As Columbia Threadneedle is both the producer of the ESG rating and a consumer of the rating, there are risks of conflicts of interest, particularly where we use the ESG ratings to justify holding a particular issuer and/or to evidence progress against fund-level net zero targets. The primary mitigation for this is our clearly defined methodology, with specific criteria for what each ESG rating category requires. Therefore, there is limited judgement involved in designating a company with an ESG rating.

m) The basis for our approach is the Net Zero Investment Framework (NZIF), developed by the Paris Aligned Investment.[1] In 2024, the publication of NZIF 2.0.saw some methodology updates and brought together approaches from different asset classes into a single guidance document. The "Targets Aligned" metric includes third party datasets that assess the temperature

[1] Paris Aligned Investment Initiative - **Investing for a net zero future**
The Paris Aligned Investment Initiative (PAII) was established in May 2019 by the Institutional Investors Group on Climate Change (IIGCC)

pathway alignment of company targets against 1.5C and 2C pathways, which are informed by the overarching objectives of the Paris Agreement.

n) Third party data may be subject to limitations in respect of its accuracy and/or completeness.

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