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VIEWPOINT

CT (Lux) Global Social Bond Fund Going global with a proven formula



Tammie Tang
Lead Portfolio Manager

Introduction

> It has been a decade since Columbia Threadneedle Investments made the pioneering move into fixed income impact investing, launching the CT UK Social Bond in 2013 – the UK’s first daily liquid social bond fund. Having followed that with the CT (Lux) European Social Bond in 2017*, we are now going global with a unique and proven approach built on the principles of impact investing.

Interested in learning more? Keep scrolling or click on the quick links to learn more



Why social?



Why fixed income?



Why impact?



Why global?

*The Fund was launched as the Threadneedle (Lux) European Social Bond Fund and changed its name on 20 November 2023.



Why social?

“We believe that investment to support positive social outcomes, through the targeting of more deprived populations, serves a net benefit for society”

At Columbia Threadneedle we believe that positive societal outcomes, such as health and well-being, correlate poorly with broad economic measures such as aggregate gross domestic product (GDP); in fact we have seen that “rich” or developed countries can be among the worst for social outcomes. The reason being that aggregate wealth is not a good predictor of outcomes, with the magnitude of wealth and income gaps within countries a particular problem.

The critical predictor of social outcomes for people is inequality. Inequality is high across the world and at risk of deteriorating further: despite income inequality between countries improving, income inequality within countries is getting worse.¹ Key systemic global events continually put this

vulnerability in the spotlight: the Covid-19 pandemic, the war in Ukraine and the subsequent cost-of-living crisis. The most vulnerable in society are most adversely impacted.

Therefore we believe we can do more to advance net societal benefits by targeting deprivation and inequality as opposed to hopeful improvements in aggregate economic measures. Improved outcomes for the least well-off and more marginalised in society will mean improved outcomes such as better health, greater productivity, improved standards of living and less crime, which we believe net benefit not just the cohort targeted, but all society.

¹ United Nations, Inequality - Bridging the Divide.

Why fixed income?

“This large asset class has great potential to allocate capital for socially beneficial outcomes”

When we launched the CT UK Social Bond, we started with the belief that the bond market has a natural role to play in dealing with inequality. It has three clear advantages that make it ideal for impact investing: scale, scope and the ability for proceeds to target specific outcomes.

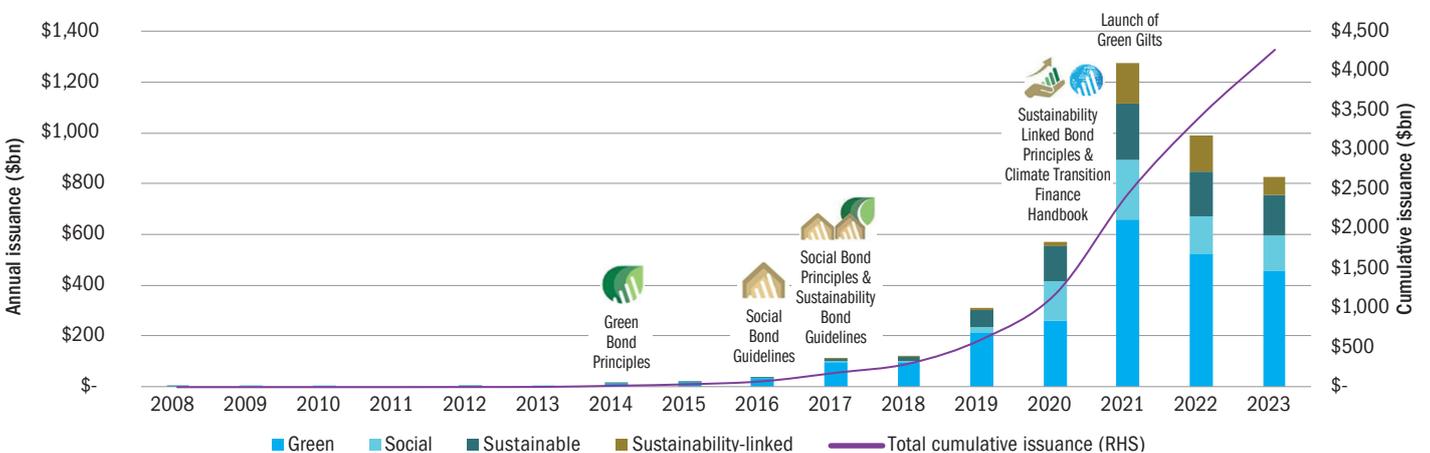
Bonds are a vast universe, easily the biggest asset class at more than \$130 trillion in size,² and the amount of new capital the market will raise in any one year is similarly big. For example, last year the public bond market raised \$10 trillion in new capital, which is near 20x the size of the \$0.5 trillion raised in new public equity. The scale owes to the broad spectrum of issuers, which includes government-related entities, supranationals, development banks, other non-profit organisations, education establishments, non-listed companies and listed companies. It is this ability to pull in both private and public capital funders that makes the bond market so well positioned to play a role in addressing social issues.

The third point about bonds is that they offer a targeted investment opportunity, which is a key point about impact. Bonds can be secured against identifiable assets, with money raised ring-fenced and with an agreed specific use of proceeds. This allows us to follow the money through and evidence how it will support beneficial outcomes for society.

When we launched the CT UK Social Bond this type of investing was new, but a focus on impact measurement was key to our approach – which remains the case. As the ESG (environmental, social and governance) labelled bond market has grown past \$4 trillion in cumulative issuance (Figure 1), a series of guiding principles for the bond market have been established by the International Capital Markets Association (ICMA), helping to crystallise this approach. As pioneers in this area we were well placed to contribute to the development of these principles, which require issuing entities to be very clear in how they define eligible projects, and then in how they monitor and report on these – a transparency which further enhances the suitability of the bond market in this type of investing.

We also actively worked with the Impact Investing Institute in supporting a campaign for a green gilt in the UK, which ultimately saw the UK government issue its inaugural green gilt in 2021 and commit to reporting social co-benefits. With our experience as active investors we are strong believers in the potential of the bond market to play a growing role to address social needs through our advocacy and education of issuers.

Figure 1: growth and breadth of the bond market



Source: Bloomberg and Columbia Threadneedle Investments as at 1 November 2023.

² World Economic Forum, Ranked: The largest bond markets in the world, 17 April 2023.



Why impact?

“We believe in scaling investment for positive social outcomes, alongside financial return”

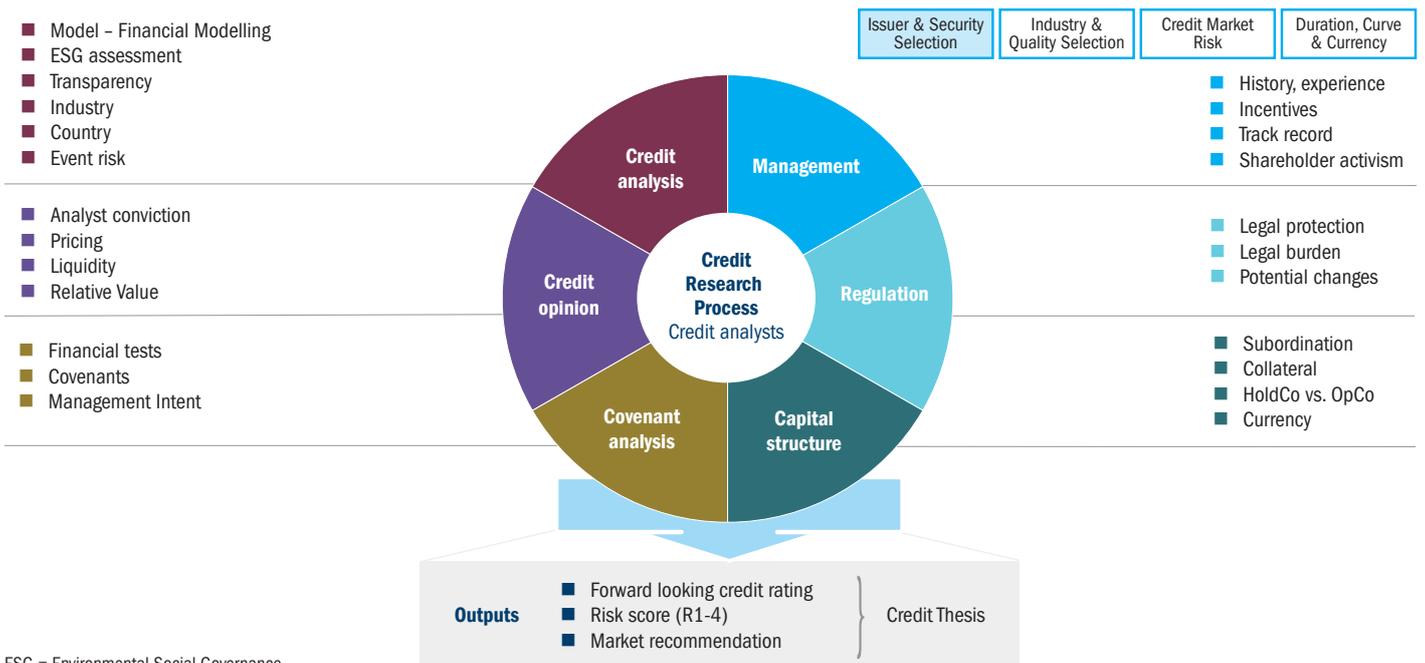
As defined by the Global Impact Investing Network, impact investing is an investment with the intention to generate measurable social impact with financial return.³ These dual objectives are key: we aim to give investors the financial return they would normally expect for the risk they’re taking – but in addition we want to optimise social benefits through the investments we make. This is what we call “social alpha”.

Therefore our process starts with the financial opportunity. Investments are avoided if they fail our financial assessment standards, based on a process led by research intensity. This relies on an experienced team of dedicated research

analysts and an in-depth proprietary bottom-up research approach (Figure 2). If the financials don’t work then we won’t progress.

Then we apply that same research intensity principle to the social impact assessment. Our social impact analysis is conducted at bond level, as different bonds by the same issuer can deliver differing social outcomes. There are two parts to our social impact analysis: a qualitative and quantitative component we call social “intentionality” and social “intensity” respectively.

Figure 2: fundamental credit research – what our analysts consider at company level



ESG = Environmental Social Governance.

Source: Columbia Threadneedle Investments, November 2023.

³ <https://thegiin.org/impact-investing/>

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CT (Lux) Global Social Bond

At a glance

Investment objective

The fund aims to provide income with the prospect of some capital growth over the long term. The fund invests in a well-diversified portfolio primarily of investment grade debt securities (high-quality bonds, as assessed by a credit rating agency) that support or fund socially beneficial activities and development worldwide.

Article 9

The fund promotes environmental or social characteristics under Article 9 of the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). The decision to invest in the promoted fund should also take into account all the characteristics or objectives of the promoted fund as described in its prospectus. The fund's sustainability related disclosures can be found on our website columbiathreadneedle.com.

RISKS

This fund is suitable for investors who can tolerate a moderate level of risk and have a medium-term investment horizon. Investors could lose some or all their capital and should read the Prospectus for a full description of all risks.

Investment risks: Investment in debt securities, derivatives and currencies. Associated risks: The fund may be exposed to additional credit, Environmental, Social and Governance (ESG), market, interest rate and liquidity risks due to the nature of investing in corporate credit bond markets.

CT (Lux) European Social Bond

At a glance

Investment objective

The fund aims to provide a total return from income and capital appreciation by investing in a well-diversified portfolio primarily of investment grade debt securities (high-quality bonds, as assessed by a credit rating agency) that support or fund socially beneficial activities and development principally in Europe.

Article 9

The fund promotes environmental or social characteristics under Article 9 of the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). The decision to invest in the promoted fund should also take into account all the characteristics or objectives of the promoted fund as described in its prospectus. The fund's sustainability related disclosures can be found on our website columbiathreadneedle.com.

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Intentionality This looks at the *intention* to have positive impact, and how strong that intention is:

Intensity This looks at multiple measures to gauge *who and what benefits* from the outcomes:



Social Intensity

Quantitative assessment of the social 'intensity', across 9 measures (to score from 0 to 31)

	Score
Social Mapping (who, where)	
Socio-economic/Deprivation focus	(max 4)
Regional score	(max 4)
Positive peace score	(max 2)
Social Focus (what)	
Social hierarchy of needs	(max 5)
Additional contribution (new funding)	(max 5)
Additive, secondary benefits	(max 2)
Funding usage (social targeting)	(max 2)
Impact Transparency	
Quality of reporting	(max 2)
Clarity of impact	(max 5)
TOTAL	(max 31)

Because of our social objectives we usually seek investment opportunities that target those areas that are more deprived or of more social need. Our social methodology is guided by an evidence-led approach because measuring social impact is more complex than measuring, for example, climate impact, which can be explicit in terms of a carbon measure.

Through this evidence-based proprietary process we have been able to show our track-record of improving impact through

intentionality and intensity. Because we quantify outcomes at bond level, we can aggregate up our evidence-based measures across outcomes, populations and regions.

In order to support the principle that impact investing is measurable, we partner with social experts who play a key role to review, advise and report on our impact (see Social partner box).



Why global?

“It is a natural evolution to grow our opportunity set and deliver impact via an investment opportunity set that is global”

We launched the CT UK Social Bond in 2013 with the intent to deliver better outcomes for people in the UK. Then six years ago we launched the CT (Lux) European Social Bond to deliver the same objective but to people within Europe. Now, in launching

the CT (Lux) Global Social Bond*, we are delivering a natural extension of these existing ideas through a wider opportunity set and widening our impact globally.

Conclusion

Columbia Threadneedle Investments has a strong track-record in managing social impact funds over a period of 10 years, and we have more than €1 billion invested in a range of portfolios for clients. Having launched a unique concept with the UK social

bond and expanded this out to Europe, we are very excited about this opportunity to take our innovative approach to the next level – delivering financial returns and doing good for society on a global level.

THE
GOOD
ECONOMY

Social partner

For the CT (Lux) Global Social Bond strategy we partner with the Good Economy – highly credible, deeply experienced impact advisors. Their role is to review, advise and monitor social impact via the independent Social Advisory Panel and produce an annual impact report. The panel, which will set the initial social targets and look to increase the social intensity over time, also includes social impact adviser Steward Redqueen.

*The decision to invest in the promoted Fund should take into account all its characteristics or objectives as described in its prospectus. The Fund's sustainability-related disclosures can be found on our website at columbiathreadneedle.com.

Meet the author



Tammie Tang, Portfolio Manager

Tammie joined Columbia Threadneedle Investments in 2012 having previously worked at JPMorgan in New York and PricewaterhouseCoopers in Sydney. At Columbia Threadneedle she is lead portfolio manager on the UK, European and Global Social Bond strategies, as well as various institutional UK credit strategies and the Threadneedle Pensions Corporate Bond Fund. Outside of work she loves sunshine, BBQs and pizza.

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These documents are available in Switzerland from the Swiss Representative and Paying Agent CACEIS Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH 8027 Zurich. The Fund is categorised as Article 9 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and has a sustainable investment objective. The decision to invest in the Fund should take into account the sustainable investment objective as described in its prospectus. The Fund's sustainability-related disclosures can be found on our website at columbiathreadneedle.com.

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