Statement on principal adverse impacts of investment decisions on sustainability factors

30 June 2023

Table 1
Statement on principal adverse impacts of investment decisions on sustainability factors

Item	Description
Financial market participant	Columbia Threadneedle Investments UK International Limited and TAM UK International Holdings Limited, representing the EMEA Group of Columbia Threadneedle Investments. Neither Columbia Threadneedle Investments UK International Limited nor TAM UK International Holdings Limited are financial market participants in scope of SFDR. This statement is made on a voluntary basis.
Summary	The subsidiaries of Columbia Threadneedle Investments UK International Limited (CTI UK IL) and TAM UK International Holdings Limited (TAM UK IHL), save for Pyrford International Limited, consider principal adverse impacts ("PAIs") of investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors for the subsidiaries of CTI UK IL and TAM UK IHL. This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2022 to 31 December 2022 for CTI UK IL, and 1 July 2022 to 31 December 2022 for TAM UK IHL (the "reference period") and is the consolidated statement of CTI UK IL and TAM UK IHL, representing the EMEA Group of Columbia Threadneedle Investments (the "PAI Statement"). The EU Sustainable Finance Disclosure Regulation ("SFDR") introduced a framework for financial market participants to disclose how they consider the principal adverse impacts of their investment decisions against a set of mandatory and voluntary indicators. In this PAI Statement, CTI UK IL and TAM UK IHL report on a voluntary basis the consolidated exposure figure for the assets held in financial products managed by their subsidiaries across 24 adverse sustainability indicators with a description, where applicable, of the actions taken, actions planned, and targets set for the next reference period. The following asset classes[1] are covered by this PAI Statement: ■ Listed Equities ■ Corporate Debt ■ Sovereign Debt ■ Real Estate ■ Infrastructure The quality and availability of data remains poor in this space. As such, this PAI Statement discloses the data coverage for the adverse sustainability indicators, where possible. The actual exposure figures may therefore be higher. On an annual basis we will report comparative figures. In this PAI Statement we describe how adverse impacts that are financially material intersect with our ESG integration and active ownership approach. ESG integration relates to the consideration of material environmental, social and governance ("ESG") risks and opportunities as part of our investment management process. Active ownership relates to our engagement and proxy voting activities. PAIs form part of our assessment where deemed material based on factors relating to, amongst others, increased litigation or reputational risk, impact to operations, or ability to attract and retain talent. Inputs used to determine materiality

[1] The report does not cover Private Equity assets due to a lack of available data.

include internal ESG scores, carbon footprint reports, issuer meetings and other research sources. While these issues were considered, this does not imply that the adverse impacts were avoided or minimised in all instances. Monitoring, engaging and reporting on PAI exposures will better inform us on how these issues may be addressed going forward.

During the reference period, Columbia Threadneedle Investments' Active Ownership team undertook engagement activities on behalf of the CTI UK IL's subsidiaries. These engagement activities are further described in this PAI Statement. The Active Ownership team began however providing engagement services to TAM UK IHL's subsidiaries from 1 January 2023 after the reference period. Engagement activities planned for the next reference period include a number of themes aligned to adverse sustainability indicators such as, Net Zero alignment, adherence to global norm standards, deforestation and biodiversity. The Active Ownership team also plans to actively vote at company meetings on a number of issues which include gender diversity.

Our investment teams also regularly met with and engaged with investee companies during the reference period on a range of material ESG issues. In forthcoming PAI Statements we seek to include more detailed information on specific investment led engagement activities which relate to adverse sustainability indicators.

Through our investment, proxy voting and engagement processes, our approach to considering PAIs is based on identifying investee companies with poor ESG practices and performance, such as large scale and persistent human rights violations, labour rights violations, environmental pollution, or corruption. In prioritising which adverse impacts and companies to focus on, we consider a range of factors such as:

- Assessment of the impact of ESG risk and opportunity factors now and in the future;
- Investment teams' and fundamental analysts' judgement and expertise;
- Previous engagement track record and previous proxy voting results;
- The significance and probability of occurrence, and severity of adverse sustainability impacts, including their potentially irremediable character, scale (gravity), scope and character (noting whether remedial action is possible);
- Assessment of likelihood of success for engagement;
- Level of exposure, typically based on size of holding across asset classes;
- Client preferences; and
- Specialist data sources to identify companies subject to a specific risk we are focusing on, including PAIs.

This PAI Statement also includes reference to our active ownership policies and the international standards which inform engagement activity. Our policies are based on principles of active ownership which means that we proactively seek to engage with companies where we deem this to be in our clients' best interests. Both the prioritisation of our engagements and the manner in which we engage takes into consideration a number of factors to arrive at the best approach. We take into account many accepted codes of conduct, statements and best practices, when monitoring the adherence of companies to them. Examples of such international standards include the International Labour Organization (ILO) Core Conventions, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the Paris Agreement and the UN Global Compact.

Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation[2]	Actions taken, actions planned and targets set for the next reference period
Climate and other environment-related indicators						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	2,313,593,114,133.53 (metric tonnes)	n/a	Coverage: 47.49%	We are committed to the 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, our responsible investment team engage as part of Climate Action 100+ (CA100+) targeting the world's highest greenhouse gas emitters, acting as co-leads on eight engagement relationships and supporting a further 40. We also contribute to the strategic direction of CA100+ via the new Institutional Investors Group on Climate Change (IIGCC) Corporate Programme Advisory Group. In addition, there are multiple 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. During this period, we undertook 768 engagement activities related to Climate Change. Of this, 64 engagement activities related specifically to Net Zero strategy and Energy Transition within the energy sector and 26 related to Energy Transition in the materials and industrials, which we consider to be
		Scope 2 GHG emissions	663,281,059,153.90 (metric tonnes)	n/a	Coverage: 47.49%	
		Scope 3 GHG emissions	18,761,351,206,714.60 (metric tonnes)	n/a	Coverage: 47.49%	
		Total GHG emissions	21,662,875,084,449.50 (metric tonnes)	n/a	Coverage: 47.49%	

[2] Data coverage percentages by our external data providers have been voluntarily disclosed to represent the challenges related to PAI data coverage. A current limitation of our reporting is that data coverage figures for certain PAIs represent all investments held (corporate and sovereign) not just the relevant investments, which therefore impacts the accuracy of the coverage numbers. Another limitation is that while coverage may indicate a holding is 'covered' by the provider this does not imply that a PAI datapoint has been disclosed or estimated. Finally, coverage figures are not available for all PAIs due to the nature of the data input.

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[2]	Actions taken, actions planned and targets set for the next reference period
	2.	Carbon footprint	Carbon footprint	137.36 tonnes per million € invested	n/a	Coverage: 47.38%	high impact sectors. 51 engagements focused on energy transition away from non-renewable sources. Chemicals companies for example are a major contributor to GHG emissions that are responsible for climate change. The chemical industry's final energy consumption is the highest of any industrial sector. We engage with some of the largest chemical companies (assessed by market capitalisation) on their decarbonisation strategies as we assess their GHG emission reduction plans. In relation to Utilities, we are focusing on engagement with companies facing the greatest transition risks due to them still planning on expanding coal mining or power capacity or earning over 30% of their revenue from coal. Companies will also be encouraged to develop plans for a constructive transition. For our infrastructure assets we are either the outright or majority owner allowing us to actively implement net zero policies, decarbonisation strategies, as well as other energy efficiency policies. To support the integration of climate considerations, climate related indicators, where relevant, formed part of internal ESG scores and were integrated as part of investment research. Carbon data reports were made available on trading systems and integrated into daily risk reports. This enables portfolio managers to actively monitor carbon exposure of their portfolios.
	3.	GHG intensity of investee companies	GHG intensity of investee companies	815.82 tonnes per million € invested	n/a	Coverage: 48.32%	
	4.	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	2.84%	n/a	Coverage: 50.4%	
	5.	Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	74.79%	n/a	Coverage: 42.94%	
	6.	Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	0.95	n/a	Coverage: 45.58%	
Biodiversity	**7.**	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies	0.03%	n/a	Coverage: 50.47%	The pace and scale of on-going biodiversity loss poses an existential threat to the ecosystems underpinning our economic and social wellbeing. Reflecting this we undertook 342 engagement activities related to biodiversity themes. 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

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[2]	Actions taken, actions planned and targets set for the next reference period
			negatively affect those areas				initiatives on natural capital, biodiversity, and deforestation to leverage our impact. A notable engagement theme was land use and deforestation – a key driver of biodiversity loss – building on our multi-year engagement on social issues and emissions. Bringing in new guidance and data sources allowed us to expand above and beyond the typical sectors to those less obvious: an example being our work in automotive value chains, where leather production and use is a large source of deforestation risk that has received far less attention than deforestation linked to the food industry. There has been significant improvement in nature strategies of extractive industries, with large industry participants setting nature positive targets. We have also seen companies follow our recommendation of joining the Taskforce on Nature-related Financial Disclosures Forum and develop robust strategies and natural capital accounting. Finally, as a natural progression from our biodiversity Environmental Stewardship efforts, we have also been part of the Lead Investor Group setting up the Nature Action 100 collaborative engagement initiative. Nature Action 100 aims to drive greater corporate ambition and action on tackling nature loss and biodiversity decline. Investors intend to engage companies in key sectors that are deemed to be systemically important to the goal of reversing nature and biodiversity loss by 2030, ensuring companies are taking timely and necessary actions to protect and restore nature and ecosystems, whilst simultaneously engaging policymakers on the outcomes of COP15. For infrastructure assets, biodiversity screening takes place in the pre-investment ESG due diligence, and forms part of the ongoing post-investment ESG monitoring. Through direct ownership and board representation we work with and influence our assets in limiting any harm to biodiversity. Currently none of the assets held in the European Sustainable Infrastructure Fund are located in an area where biodiversity is actively harmed. Biodiversity factors also form part of internal ESG scores, where deemed material. ESG scores are integrated as part of investment research.
Water	**8.**	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested,	5.17	n/a	Coverage: 3.84%	We engage with companies which may have significant impact on water and hazardous waste (including radioactive waste where relevant). During the period under review we undertook 95 engagement activities related to water and 32 related to waste.

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[2]	Actions taken, actions planned and targets set for the next reference period
			expressed as a weighted average				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 capitalisation as we look towards a sustainable transition within the chemicals sector. Aside from conducting one-to-one engagement, we also engaged collaboratively through initiatives such as those looking to promote the sustainable management of hazardous chemicals. Whilst we increasingly see companies track the sustainability of their product portfolio through internal metrics (covering issues such as toxicity, circularity, and durability), the challenge remains in formulating an industry standard to allow for comparison of products across the board. We will look to encourage collaborations across the sector and recommend that such a standard be introduced. Outside of the chemicals sector, we have also been engaging companies on the development of stronger e-waste and waste management programmes and will continue to do so through 2023. Water and waste factors also form part of internal ESG scores, where deemed material. ESG scores are integrated as part of investment research.
Waste	**9.**	Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	4.66 Tonnes per million € invested	n/a	Coverage: 17.15%	
Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters							
Social and employee matters	**10.**	Violations of UN Global Compact (UNGC) principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.20%	n/a	*Note we do not provide coverage estimates on this factor as the absence of data is interpreted to mean no violations are identified.*	Our expectations for investee companies refer to international codes and standards where relevant, such as International Labour Organization (ILO) Core Conventions, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the UNGC, the Paris Agreement, the Taskforce on Climate-related Financial Disclosures, and others. 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.

Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation[2]	Actions taken, actions planned and targets set for the next reference period
11.	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.10	n/a	*Note we do not provide coverage estimates on this factor*	While some of these breaches may relate to incidents that occurred many years ago, we seek to engage all companies to share best practice, encourage improvement and receive any updates on actions taken to mitigate harms. Given the nature of these breaches and the environmental and social risks that they represent, we will continue to take this approach to engagement through 2023. For infrastructure assets, violations of global norms are included in the pre-investment ESG due diligence, and form part of the ongoing post-investment ESG monitoring. These standards are part of the European Sustainable Infrastructure Fund's exclusion criteria and a breach can lead to a prohibition on investments and/or divestment.
12.	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	14.82%	n/a	Coverage: 15.31%	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 the availability of data improves. We also participate in several collaborative investor engagement initiatives on gender specific remuneration policies, as well as pay gap transparency. We undertook 113 engagement activities specifically addressing diversity and discrimination during the reference period.
13.	Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	34.20%	n/a	Coverage: 100%	We believe companies should have a suitable diverse mix of skills and perspectives. While we engaged with companies on the topic of board diversity, we primarily supported the promotion of diversity through our voting activities as 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 are also engaging with the largest companies in Asia which still have an all-male board. While regulators and policymakers in some Asian countries have begun working towards eliminating male-only boardrooms, we believe there is significant room for improvement and will be engaging to ensure appropriate action is taken through 2023.

Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation[2]	Actions taken, actions planned and targets set for the next reference period
						Board gender diversity was also considered as part of proxy voting activities and governed by the Corporate Governance Guidelines.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	<00.01	n/a	*Note we do not provide coverage estimates on this factor as the absence of data is interpreted to mean no weapons have been identified*	Exposure to controversial weapons is governed by controversial weapons policies for each entity which prohibits investment in companies exposed to these activities. In 2023 we intend to harmonise the policies.
Indicators applicable to investments in sovereigns and supranationals						
Environmental	**15.** GHG intensity	GHG intensity of investee countries	251.96 Tonnes per million € GDP	n/a	Coverage: 99.67%	We take account of sovereigns' environmental performance management (among other factors), including progress towards net zero emissions as assessed by an external vendor, as a weighted component of the score used to create our country ESG scoring models. This is integrated as a component of our investment research. 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 the Net Zero Asset Managers Initiative we will extend our proprietary Net Zero Investment Framework to include sovereigns.
Social	**16.** Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and,	3.75 (count) 4.30% (weight)	n/a	*Note we do not provide coverage estimates on this factor*	We take a nuanced approach to mitigation depending on the nature of the issue including monitoring, engagement, and divestment. Countries subject to sanctions are tracked using a variety of data inputs and where relevant investment restrictions for these countries are coded in our Compliance systems to prohibit trading. We will continue to monitor social violations and continue to review and expand our approach to sovereign engagement.

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[2]	Actions taken, actions planned and targets set for the next reference period
			where applicable, national law				
Indicators applicable to investments in real estate assets							
Fossil fuels	**17.**	Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	2.48 (Gross Asset Value) 1.76 (EPC Net Lettable Area)	n/a	Coverage: 100%	We have and will continue to exercise discretion when considering either the acquisition of property assets that have, or are entering into new lease contracts with, organisations involved in the extraction, storage, transport, or manufacture of fossil fuels, appreciating the legitimate requirement for such organisations to occupy buildings or parts of buildings, whilst recognising the commercial drivers and need to balance a well-let portfolio with ethical drivers and screening practices. We will monitor exposure to organisations engaged in such activities and take such aspects into account when making ongoing holding decisions, recognising the impact of events outside of the control of the portfolio manager, such as lease assignments, may have on exposure levels. Portfolios will be managed with the aforementioned discretion unless a specific mandate introduces a particular threshold in which case a controlled divestment strategy will be pursued.
Energy efficiency	**18.**	Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	68.18 (EPC Net Lettable Area) 65.70 (EPC Estimated Rental Value)	n/a	Coverage: 98.06%	We seek to establish full knowledge of the energy efficiency ratings of each property asset at individual occupancy level. The distribution of energy performance certificate rating is regularly monitored as are certificate expiries so that renewals can be procured promptly, and coverage maintained. Opportunities for improving energy efficiency credentials are being progressively collated and integrated into asset planning, with particular focus on lease reversions and associated ability to implement improvements through substantial repair, refurbishment, or replacement of building components. We seek to reduce overall exposure to energy inefficient assets through a combination of strategies which include acquiring properties thoughtfully, refurbishing buildings responsibly, managing, and operating assets optimally, and engaging with occupiers astutely.

Table 2

Additional climate and other environment-related indicators

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies						
Climate and other environment-related indicators						
Water, waste and material emissions	**15.** Deforestation	Share of investments in companies without a policy to address deforestation	38.13%	n/a	Coverage: 50.47%	During this period, we undertook for example 293 engagement activities related to deforestation themes. 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. Deforestation and forest degradation are primarily linked to the production of commodities including palm oil, soy, cattle products, timber, cocoa, coffee and rubber. We have developed a bespoke tool to appraise the quality of deforestation management of companies involved in soft commodity value chains, identifying holdings with material exposure to deforestation impact and risk with poor quality management. We ask companies to commit to no conversion of natural ecosystems and/ or zero deforestation, and to trace at least 90% of the total production/consumption volume of all high-risk commodities down to the relevant production site or processing facility level. In 2023, we will also engage companies on policy and procedures, certification, due diligence, indigenous and smallholder support and risk assessments. Deforestation data is also included as part of ESG scores where deemed material. These scores are integrated into investment research.

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, actions planned and targets set for the next reference period
Indicators applicable to investments in real estate assets						
Greenhouse gas emissions	**18.** GHG emissions	Scope 1 GHG emissions generated by real estate assets	290,226.09 (metric tonnes)	n/a	68.02 % Coverage (% of total Gross Asset Value)	Energy data from landlords is collated on an ongoing basis through a mixture of energy supplier estimates, readings, half-hourly data. Proxy and /or benchmarked data is used to estimate any missing consumption (time and area). We are seeking to improve coverage of Scope 1 and 2 Fugitive emissions – currently this data is not collected by Managing Agents. We aim to reduce reliance on estimations through smart metering technology; and implement recommendations from the Net Zero Carbon audit programme to reduce carbon emissions. The denominator for the adverse sustainability indicator has been calculated on the basis of floor area (in sq m) as this is believed to be more representative than the value of the asset, which may vary significantly in terms of location.
		Scope 2 GHG emissions generated by real estate assets	452,162.07 (metric tonnes)	n/a	87.06 % Coverage (% of total Gross Asset Value)	
		Scope 3 GHG emissions generated by real estate assets	5,906,846.47 (metric tonnes)	n/a	64.03 % Coverage (% of total Gross Asset Value)	Data is collected via annual data requests manually administered to tenants. Proxy and / or benchmarked data is used to estimate any missing consumption (time and area). Further improvements being considered are: upstream purchased goods and services, embodied carbon for developments. Expanding data requests to tenants to include fugitive emissions, where they are responsible for the operation of refrigerant HVAC systems. Increase data coverage from tenants through wider use of green lease clauses, smart metering, Implementation of recommendations from the Net Zero Carbon audit programme to reduce carbon emissions, etc. The denominator for the adverse sustainability indicator has been calculated on the basis of floor area (in sq m) as this is believed to be more representative than the value of the asset, which may vary significantly in terms of location.
		Total GHG emissions generated by real estate assets	6,649,234.63 4.60 (Net Lettable Area) (metric tonnes)	n/a	72.08 % Coverage (%of total Gross Asset Value)	

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, actions planned and targets set for the next reference period
Energy consumption	**19.** Energy consumption intensity	Energy consumption in GWh of owned real estate assets per square meter	0.13	n/a	72.08 % Coverage (%of total Gross Asset Value)	Proxy and / or benchmarked data is used to estimate any missing consumption (time and area). We will look to reduce the reliance on estimations through a further rollout of smart metering technology for landlord supplies. Increase data coverage from tenants through wider use of green lease clauses, smart metering etc. Implementation of recommendations from the Net Zero Carbon audit programme to improve energy efficiency. The denominator for the adverse sustainability indicator has been calculated on the basis of floor area (in sq m) as this is believed to be more representative than the value of the asset, which may vary significantly in terms of location.

Table 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters							
Adverse sustainability impact	**Adverse impact on sustainability factors (qualitative or quantitative)**		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Indicators applicable to investments in investee companies							
Social and employee matters	**7.**	Incidents of discrimination	1. Number of incidents of discrimination reported in investee companies expressed as a weighted average 2. Number of incidents of discrimination leading to sanctions in investee companies expressed as a weighted average	<00.01	n/a	Coverage: 50.37%	Discrimination issues were included as part of our global norms screening data (UNGC, OECD and ILO), as described above. 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. During the period we had 113 engagement activities related to diversity and discrimination. We will continue to monitor companies with respect to incidences of discrimination, for example engaging on racial discrimination and clearly laying out key priorities regarding corporate labour management. We will continue to review and enhance our social engagement approach to include systemic change and/or mitigation approaches to incidents of discrimination. Where we deem response to our engagement to have been insufficient, we will explore escalation methods in 2023.
Indicators applicable to investments in sovereigns and supranationals							

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
Governance	**21.** Average corruption score	Measure of the perceived level of public sector corruption using a quantitative indicator explained in the explanation column	74.75	n/a	Coverage: 99.67%	Within sovereign ESG scoring models which are integrated as a part of research 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 and we will continue to review and expand our approach to sovereign engagement.
	24. Average rule of law score	Measure of the level of corruption, lack of fundamental rights, and the deficiencies in civil and criminal justice using a quantitative indicator explained in the explanation column	1.40	n/a	Coverage: 99.67%	Within sovereign ESG scoring models which are integrated as a part of research 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 and we will continue to review and expand our approach to sovereign engagement.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Our approach to identification, prioritisation and mitigation of PAIs is set out in our PAI Statement as well as being guided by our Responsible Investment engagement policy, our Environmental and Social Practices Statement and Corporate Governance Guidelines. These policies were reviewed and approved by our relevant governing bodies in December 2022. For a full list of policies please see our website.

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 the responsible investment function as well as other investment functions that consider and take actions to mitigate PAIs as appropriate. There are also data and technology teams providing support with analytical tools and PAI related reporting, and risk, legal and compliance functions advise and oversee adherence to SFDR.

Identification and prioritisation of PAIs

Through our investment, proxy voting and engagement processes, our approach to considering PAIs is based on identifying investee companies with poor ESG practices and performance, such as large scale and persistent human rights violations, labour rights violations, environmental pollution, or corruption.

In addition to research carried out by responsible investment specialists and investment teams, we use sources such as external ESG-data, publicly available information, company disclosures, and proprietary analytical tools in our analysis. This approach is informed by our long history of direct engagement with investee companies to assess the likelihood of occurrence, scope, and severity of adverse impacts, the quality of sustainability management of companies, as well as 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, regional and thematic 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 Responsible Investment team may carry out additional proprietary research on potential adverse impacts on a case-by-case basis.

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

- Assessment of impact of ESG risk and opportunity factors now and in the future, including the financial materiality of ESG risk issues in accordance with Sustainable Accounting Standards Board (SASB) Standards
- Investment teams' and Fundamental Analysts' judgement and expertise
- Previous engagement track record and previous proxy voting results
- The significance and probability of occurrence, and severity of adverse sustainability impacts, including their potentially irremediable character, scale (gravity), scope and character (noting whether remedial action is possible)
- Assessment of likelihood of success for engagement
- Level of exposure, typically based on size of holding across asset classes
- Client preferences
- Specialist data sources to identify companies subject to a specific risk we are focusing on, including for example PAIs

For example, during the year we undertook engagement programmes in key countries on the importance of phasing out coal in the energy system. Our activities focused on coal miners and utilities with significant coal exposure; laggard countries and companies where we saw most potential for change, including the US, Japan and South Korea. With these key nations having set net zero targets and updated their National Determined Contributions (country-level climate action plans to reduce emissions), our focus then shifted to identifying companies planning on expanding coal mining or power capacity. Given coal-reliant countries' struggles to develop sufficiently ambitious energy strategies, many of the same companies appear in the second phase of the project.

Another example relates to engagement on board gender diversity, targeting the largest companies in Asia which still have an all-male board. The global average female representation on boards is 19.7%, yet the figure in Asia is 11.7% (as of 2022) with all-male boards still common. While regulators in some Asian countries have begun to work towards eliminating male-only boardrooms, we believe there is significant room for improvement and will be engaging on this topic to encourage appropriate action is taken through 2023.

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 characteristics.

	For this reference period, we have selected material environmental activities that we believe are fundamental to the achievement of climate aspirations. These include: ■ Deforestation – Addressing the impact of deforestation and the loss of a primary carbon sink (Investee Companies PAI 2.7) ■ Greenhouse Gases – Greenhouse gases are a significant impact from real estate, which if not reduced, may 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 management of scarce resources, particularly fossil fuel usage, can minimise negative environmental impacts (Real Estate PAI 2.19) When assessing social issues, we build on industry commitments and international standards such as the UN's Universal Declaration of Human Rights; UN Guiding Principles on Business and Human Rights and the ILO's International Labour Standards among others. We consider the impact of the social issue as well as alignment with key frameworks such as the UN's Sustainable Development Goals (UNSDGs): ■ Discrimination – Diversity and inclusion goals are conducive to a more sustainable and inclusive society (Investee Companies 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, negatively impact fair access to resources, and increase inequality. (Sovereigns and Supranationals 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 components in the creation of a safe and just society. (Sovereigns and Supranationals PAI 3.24) Note that voluntary PAIs may be subject to change where they are no longer deemed to be relevant, or where we choose to include other voluntary PAIs. We recognize that we do not consider PAIs for all assets in which we invest due to challenges related to data availability and/or reliability, 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.
Engagement policies	Our active ownership approach is governed by our Responsible Investment Engagement policy. Engagement under this policy may cover listed equities; corporate credit; Sovereign, Supranational and Agency (SSA) issuers; private equity; real estate and infrastructure. In encouraging companies to move towards best practice in managing ESG risks, including material PAIs, we make reference to international codes and standards where relevant, such as the International Labour Organization (ILO) Core Conventions, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the UN Global Compact, the Paris Agreement, the Taskforce on Climate-related Financial Disclosures and national corporate governance principles and codes of business best practice. Our key expectations and aspirations on good practice are outlined in our Corporate Governance Guidelines, and Environmental and Social Practices Statement.

Going forward, our active ownership approach will be governed by our newly developed engagement policy. We define engagement within our policy as having constructive dialogue with companies on ESG risks that could have a material negative impact on their businesses and, where necessary, encouraging improvement in ESG management practices. This includes for example firm level commitments to engage on specific adverse impacts like energy use and emissions. As a firm and signatory to the Net Zero Asset Managers Initiative, we have committed to an ambition to reach net zero emissions by 2050 or sooner across all assets under management working in partnership with our clients. Our objective is to achieve this through engagement with companies which will require the cutting of emissions and transition of energy sources. Where our engagement activity does not result in the intended outcome, we will review our approach and take appropriate actions which may include portfolio reweighting or divestments for example. Our policies are reviewed annually to reflect our engagement practices, prioritisation and escalation methodologies.

Our primary driver for engagement is to support long-term investment returns by mitigating risk, capitalising on opportunities linked to ESG factors, and reducing any material negative impact that our investment decisions could have on these factors. We believe that we can play a part in building a more sustainable and resilient global economy by encouraging companies to improve their ESG practices. This can also help drive positive impacts for the environment and society that are in line with the achievement of the United Nations Sustainable Development Goals (SDGs), as well as addressing principal adverse impacts.

Our engagements focus on financial performance, sustainability risks and opportunities, operational excellence, capital allocation policies and managerial incentives, among other topics. Collaboration across asset classes and thematic and sectoral disciplines ensures an informed approach.

Our engagement programme is structured around seven high level themes:

- Climate change
- Environmental stewardship, including biodiversity
- Labour standards
- Human rights
- Public health
- Business conduct
- Corporate governance

Underlying each theme is a range of sub-themes which supports the focusing of our engagement on the most material issues. To incorporate PAIs in our engagement approach, we map each PAI to a sub-theme or multiple sub-themes as applicable. This enables the tracking of engagement milestones and reporting of engagement activity based around the PAI framework within our existing engagement strategy.

We set specific engagement objectives (“Objectives”) and track progress against these to assess achievements (“Milestones”) and determine next steps. These Milestones recognize improvements in companies’ ESG policy, management systems or practices against the Objectives that were set. If companies do not demonstrate progress on matters that we believe are in our clients’ best long-term interests, we may consider further escalation. In considering engagement escalation strategies, we will make a case-by-case assessment of progress against our Objectives and how companies respond to our engagement. Where engagement activity is led by our active ownership team,

	assessments take place at quarter end when Active Ownership analysts assess progress against the Objectives we have set for each company we engage with. We also assess annually all companies' responsiveness to engagement undertaken in the previous full year. Both data points feed into the escalation decision.
References to international standards	We take into account many accepted codes of conduct, statements and best practices. We source external data to enable our investment teams to monitor the adherence of a company to these standards and make this information available within investment platforms and daily risk reports. These data points make reference to international codes and standards, such as the International Labour Organization (ILO) Core Conventions, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the UN Global Compact, and national corporate governance principles and codes of business best practice. To support consideration of PAIs alongside our existing engagement activities, we also source external PAI-related data from sources such as MSCI, World Bank, GRESB and CDP. A limitation of ESG and PAI data is that it is typically backwards looking. While we do not undertake scenario analysis for all of the assets that we manage, the firm has available scenario analysis tools developed internally in 2021 which were made available to Net Zero aligned funds during the reference period. The scenarios used are based on MSCI data and are forward looking climate scenarios based on 1.5-degree trajectories.
Historical comparison	This is the first statement on principal adverse impacts on sustainability factors. A historical comparison will be made in future statements