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 Netherlands B.V. LEI Code: 2138001ENWGPLH6F4Y25
Summary	Columbia Threadneedle Netherlands B.V. ("CTNL"), LEI Code: 2138001ENWGPLH6F4Y25, considers principal adverse impacts ("PAI") of investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of CTNL. This statement on principal adverse impacts on sustainability factors ("PAI Statement") covers the reference period from 1 January 2022 to 31 December 2022 (the "reference period"). CTNL is a legal entity within the Columbia Threadneedle Investments group receiving a number of services from other group entities under delegation agreements. Any reference made to "we" or "our" in this PAI Statement may refer to another entity in the group providing services to CTNL. The EU Sustainable Finance Disclosure Regulation ("SFDR") introduced a framework for financial market participants to disclose how they consider the principal adverse impacts ("PAIs") of their investment decisions against a set of mandatory and voluntary indicators. In this PAI Statement, CTNL reports the consolidated exposure figure for the assets held in its financial products across 20 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 are covered by this PAI Statement: ■ Listed Equities ■ Corporate Debt ■ Sovereign Debt The quality and availability of data remains inadequate in this space. As such, this PAI Statement discloses the data coverage for the adverse sustainability indicators, where possible. CTNL's actual exposure figure to each adverse sustainability indicator 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 environmental, social and governance ("ESG") integration and active ownership approach. ESG integration relates to the consideration of material 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 include internal ESG scores generated by a proprietary model, 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 CTNL. This PAI Statement describes how engagement activities related to PAIs. 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 and issuers during the reference period on a range of material ESG issues. In forthcoming PAI Statements we will 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 issuers 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 issuers 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 issuers 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 issuers 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[1]	Actions taken, and actions planned, and targets set for the next reference period
				Climate and other environment-related indicators			
Greenhouse gas emissions	**1.**	GHG emissions	Scope 1 Greenhouse Gas Emissions (GHG)	163,247,367,612.39 (metric tonnes)	n/a	Coverage: 11.88%	We are committed to the ambition of reaching net zero emissions by 2050 or sooner across all assets under management, working in partnership with our clients, 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.
			Scope 2 GHG emissions	35,678,860,083.72 (metric tonnes)	n/a	Coverage: 11.88%	
			Scope 3 GHG emissions	923,602,929,149.57 (metric tonnes)	n/a	Coverage: 11.39%	
			Total GHG emissions	1,117,689,249,138.63 (metric tonnes)	n/a	Coverage: 11.45%	
	2.	Carbon footprint	Carbon footprint	35.27 (tonnes per million € invested)	n/a	Coverage: 11.45%	
	3.	GHG intensity of investee companies	GHG intensity of investee companies	1,067.73 (tonnes per million € revenue)	n/a	Coverage: 11.23%	
	4.	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	0.85%	n/a	The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments held	

[1] 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 nature of the data input.

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[1]	Actions taken, and actions planned, and targets set for the next reference period
						Coverage: 11.71%	During this period, we undertook 216 engagements related to Climate Change. Of this, 17 engagements related specifically to Net Zero strategy and Energy Transition within the energy sector and 4 related to Energy Transition in the materials and industrials, which we consider to be high impact sectors. 16 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 by market cap on their decarbonisation strategies as we assess their GHG emission reduction plans. In relation to Utilities, we are focusing on engagement with issuers 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. Issuers will also be encouraged to develop plans for a constructive transition.
	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	71.37%	n/a	The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments Coverage: 11.71%	
	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	1.45	n/a	The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments High Impact climate sectors are defined by the EU as specific NACE sectors. NACE refers to the Nomenclature of Economic Activities (NACE) which is the European statistical classification of economic activities Coverage: 10.17%	
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	<00.01%	n/a	The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments Coverage: 11.71%	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 83 engagements 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

Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation[1]	Actions taken, and actions planned, and targets set for the next reference period
	negatively affect those areas				to set out strategies, governance, targets, and metrics. We also participate in several collaborative investor engagement initiatives on natural capital, biodiversity, and deforestation to leverage our impact. 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 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.

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[1]	Actions taken, and actions planned, and targets set for the next reference period
Water	**8.**	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0.8 Tonnes per million € invested	n/a	Coverage: 0.59%	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 20 engagements related to water and 5 engagements related to waste. We intend to continue to engage on these themes. 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 electronic-waste (e-waste) and waste management programmes and will continue to do so through 2023.
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	0.57 Tonnes per million € invested	n/a	Coverage: 4.00%	
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 principles and Organisation for Economic Cooperation and Developme	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.10%	n/a	The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments 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 UN Global Compact (UNGC), the Paris Agreement, the Taskforce on Climate-related Financial Disclosures (TCFD), 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.

Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation[1]	Actions taken, and actions planned, and targets set for the next reference period
	nt (OECD) Guidelines for Multinational Enterprises					As part of our engagement programme, we engage companies 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.
11.	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact (UNGC) 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	0.02	n/a	The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments 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.
12.	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	0.18%	n/a	Average pay gap of investee companies. Coverage: 2.51%	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 23 engagements 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	35.32%	n/a	Average ratio of female to male board members Coverage:100%	We believe companies should have a suitable diverse mix of skills and perspectives. While we engaged with 5 companies on the topic of board diversity, we primarily supported the promotion of diversity through our voting activities as we may

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[1]	Actions taken, and actions planned, and targets set for the next reference period
			percentage of all board members				vote against resolutions from 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 issuers in Asia, each of 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.
	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	0	n/a	The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments 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 the existing Columbia Threadneedle Investment controversial weapons policy which prohibits investing in companies exposed to this activity.
Indicators applicable to investments in sovereigns and supranationals							
Environmental	**15.**	GHG intensity	GHG intensity of investee countries	399.75 Tonnes per million € GDP	n/a	Coverage: 99.82%	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.

Adverse sustainability indicator			Metric	Impact [year n]	Impact [year n-1]	Explanation[1]	Actions taken, and actions planned, and targets set for the next reference period
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, where applicable, national law	4.75 (Count) 7.30% (Weight)	n/a	Coverage: 99.82%	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.

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, and 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	9.20%		Coverage: 11.71% The metric is expressed as a percentage of investee companies with exposure to the PAI as a proportion of total investments	During this period, we undertook 63 engagements related to biodiversity 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 is 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 issuers involved in soft commodity value chains, identifying holdings with material exposure to deforestation impact and risk with poor quality management. We ask issuers 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 issuers on policy and procedures, certification, due diligence, indigenous and smallholder support and risk assessments.

Table 3

Additional 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 for social and employee, respect for human rights, anti-corruption, and anti-bribery matters							
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	Metrics are expressed as a count of incidents related to discrimination or as incidents resulting in sanctions, represented as a weighted average Coverage: 11.57%	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 23 engagements 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 the response to our engagement has been insufficient, we will explore escalation methods in 2023.
Indicators applicable to investments in sovereigns and supranationals							
Governance	**21.**	Average corruption score	Measure of the perceived level of public sector corruption using a	69.95		Weighted average Corruption	Within sovereign ESG scoring models used for investment research we measure the corruption score of a country as an input to our overall assessment of a countries' ESG score.

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
		quantitative indicator explained in the explanation column			Perception Index score of investee countries	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	1.21		Weighted average Rule of Law Score of investee countries Coverage: 99.82%	Within sovereign ESG scoring models used for investment 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. The governing body of CTNL reviewed the latest versions of these policies on 14th 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 team 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, small or mid-cap emerging markets companies, 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 issuers 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 risk issues in accordance with Sustainability Accounting Standards Board 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 issuers subject to a specific risk we are focusing on, including for example PAIs

For example, during the year we undertook engagement programs 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. This covered a range of issuers including a small subset held within CTNL.

Another example relates to engagement on board gender diversity, targeting the largest issuers in Asia which still have an all-male board. The global average female representation on the board is 19.7%, yet the figure in Asia is 11.7% (as of 2022) with all-male boards still common. While regulators and policymakers 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)

	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 engagement policy. Engagement under this policy may cover listed equities; corporate credit; Sovereign, and Supranational and Agency (SSA) issuers. In encouraging issuers to move towards best practice in managing ESG risks, including material PAIs, we make reference to international codes and standards where relevant, 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 issuers 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 issuers 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 issuers 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 issuers' ESG policy, management systems or practices against the Objectives that were set. If issuers 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 issuers 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 issuer we engage with. We also assess annually all issuers' 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. Our key expectations on good practice are outlined in our corporate governance guidelines, and environmental and social practices statements. 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 assets managed by CTNL, 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.