

Statement on principal adverse impacts of investment decisions on sustainability factors

30 June 2023

Table 1

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Financial market participant	Threadneedle Management Luxembourg S.A. LEI Code: 549300CN40D22L8BMK21
Summary	<p>Threadneedle Management Luxembourg S.A. ("TMLSA"), LEI Code: 549300CN40D22L8BMK21, 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 TMLSA.</p> <p>This statement on principal adverse impacts on sustainability factors covers the reference period from 1 July 2022 to 31 December 2022 (the "reference period") and is the consolidated statement of TMLSA (the "PAI Statement"). TMLSA opted in to consider the PAIs of its investment decisions on sustainability factors on 1 July 2022.</p> <p>TMLSA 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 TMLSA.</p> <p>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, TMLSA reports the consolidated exposure figure for the assets held in its financial products 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 are covered by this PAI Statement:</p> <ul style="list-style-type: none"> ■ Listed Equities ■ Corporate Debt ■ Sovereign Debt ■ Infrastructure ■ Real Estate <p>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. TMLSA's actual exposure figure to each adverse sustainability indicator may therefore be higher. On an annual basis we will report comparative figures.</p> <p>In this PAI Statement we describe how adverse impacts that are financially material intersect with our ESG integration approach. ESG integration relates to the consideration of material ESG risks and opportunities as part of our investment management process. PAIs may form part of this 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, 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 and reporting on PAI exposures will better inform us on how these issues may be addressed going forward.</p>

During the reference period, Columbia Threadneedle Investments' Active Ownership team did not have a service agreement in place to undertake engagement activities on behalf of TMLSA. As such, no specific engagement activities are reported for TMLSA in the PAI Statement, notwithstanding that the Active Ownership team may have engaged with an investee company that is held in a financial product managed by both TMLSA and another legal entity in the Columbia Threadneedle Investments group that it had a service agreement with. The Active Ownership team will begin providing engagement services to TMLSA from 1 January 2023, and specific engagement activities will be reported in the next PAI Statement. 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 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 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.

The 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, 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, actions planned and targets set for the next reference period	
Climate and other environment-related indicators						
Greenhouse gas emissions (GHG)	1. GHG emissions	Scope 1 GHG emissions	664,213,270,172.51 (Metric tonnes)	n/a	Coverage: 74.69%	During the period under review climate related indicators deemed relevant formed part of internal ESG scores and were integrated as part of investment research.
		Scope 2 GHG emissions	162,672,981,331.07 (Metric tonnes)	n/a	Coverage: 74.69%	
		Scope 3 GHG emissions	4,583,186,413,123.70 (Metric tonnes)	n/a	Coverage: 73.14%	
		Total GHG emissions	5,396,029,915,127.85 (Metric tonnes)	n/a	Coverage: 72.72%	
	2. Carbon footprint	Carbon footprint	264.95 (tonnes per million € invested)	n/a	Coverage: 71.60%	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.
3. GHG intensity of investee companies	GHG intensity of investee companies	817.65 (tonnes per million € invested)	n/a	Coverage: 71.60%		
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	4.43%	n/a	Coverage: 100%	During the reference period, the Active Ownership team did not have a service agreement in place to undertake engagement activities on behalf of TMLSA. However, 112 climate engagements were undertaken by the Active Ownership team with companies that are held in financial products managed by both TMLSA and another legal entity in the Columbia Threadneedle Investments group that it had a service agreement with. This included dedicated engagements related to energy transition and energy use by companies active in the fossil fuel and high impact climate sectors. The Active Ownership team will begin providing engagement services to TMLSA from 1 January 2023.	
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	76.52%	n/a	Coverage: 58.67%		

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.

Principal adverse sustainability impacts statement

Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation ¹	Actions taken, actions planned and targets set for the next reference period	
	renewable energy sources, expressed as a percentage of total energy sources				Specific engagement activities will be reported in the next PAI Statement.	
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	0.81	n/a	Coverage: 63.52%	
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 negatively affect those areas	0.04%	n/a	Coverage: 73.41%	<p>Internal scores utilise the Sustainability Accounting Standards Board (SASB) materiality framework to identify ESG factors to be assessed. Biodiversity factors form part of internal ESG scores, where deemed material by SASB. ESG scores are integrated as part of investment research.</p> <p>Engagement activities undertaken by the Active Ownership team will be reported in the next PAI Statement. Through engagement we will be 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.</p> <p>We also participate in several collaborative investor engagement initiatives on natural capital, biodiversity, and deforestation to leverage our impact. This includes Nature Action 100 which aims to drive greater corporate ambition and action on tackling nature loss and biodiversity decline. As investors we 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.</p> <p>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</p>

Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation ¹	Actions taken, actions planned and targets set for the next reference period	
					Sustainable Infrastructure Fund are located in an area where biodiversity is actively harmed.	
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	5.24	n/a	Coverage: 6.81%	<p>Internal scores utilise the SASB materiality framework to identify ESG factors to be assessed. Water factors form part of internal ESG scores, where deemed material by SASB. ESG scores are integrated as part of investment research.</p> <p>Engagement activities undertaken by the Active Ownership team will be reported in the next PAI Statement. We will engage with companies which may have significant impact on water.</p> <p>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 cap as we look towards a sustainable transition within the chemicals sector.</p>
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	0.87	n/a	Coverage: 26.87%	<p>Internal scores utilise the SASB materiality framework to identify ESG factors to be assessed. Waste factors form part of internal ESG scores, where deemed material by SASB. ESG scores are integrated as part of investment research.</p> <p>Engagement activities undertaken by the Active Ownership team will be reported in the next PAI Statement. We will engage with companies which may have significant impact on waste, including hazardous waste.</p> <p>For example, our Active Ownership Analysts have a structured engagement programme targeting the largest chemicals companies by market cap as we look towards a sustainable transition within the chemicals sector. Engagement activity will also relate to other sectors including the development of stronger e-waste and waste management programmes.</p>

Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation ¹	Actions taken, 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						
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	0.11%	n/a		Violations of global norms including the International Labour Organisation (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 are integrated into daily risk reports and available in portfolio monitoring systems. This enables investment teams to be aware of and monitor these issues, including engaging with issuers as needed. While this does not prohibit investment, it makes investment teams aware of any significant ongoing issues as part of investment research, portfolio risk monitoring and engagement prioritisation.
	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	0.15	n/a		Engagement activities undertaken by the Active Ownership team relating to UNGC and compliance with processes will be reported in the next PAI Statement. On a quarterly basis we will also review engagement progress related to controversies with respect to the UNGC. 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 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	12.14%	n/a	Coverage: 16.29%	Engagement activities undertaken by the Active Ownership team relating to discrimination and pay will be reported in the next PAI Statement.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	34.86%	n/a	Coverage: 73.12%	Board gender diversity was considered as part of proxy voting activities of TMLSA. Planned activities include the implementation of the firm's voting policy and engagement policy from 2023.

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Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation ¹	Actions taken, actions planned and targets set for the next reference period	
					Engagement activities undertaken by the Active Ownership team relating to board gender diversity will be reported in the next PAI Statement.	
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	0.00	n/a		Exposure to controversial weapons is governed by an existing controversial weapons policy which prohibits TMLSA investing in companies exposed to this activity.	
Indicators applicable to investments in sovereigns and supranationals						
Environmental	15. GHG intensity	GHG intensity of investee countries	367.84	n/a	Coverage: 99.17%	Within country ESG scoring models we take account of sovereigns' environmental performance management (among other factors) as a weighted component of the score. 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 Net Zero Asset Managers Initiative we will begin to extend our Net Zero Investment Framework to include sovereigns in 2023.
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	4.50 (Count) 8.65% (Weight)	n/a		<p>We take a nuanced approach to mitigation depending on the nature of the issue including monitoring, engagement, and divestment.</p> <p>Countries subject to sanctions are tracked using a variety of data inputs and investment restrictions for these countries and are coded into our compliance systems.</p> <p>We will continue to monitor social violations. and continue to review and expand our approach to sovereign engagement.</p>

Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation ¹	Actions taken, actions planned and targets set for the next reference period	
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	0.00%	n/a	Coverage: 100%	<p>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 maximising a well-let portfolio with ethical drivers and screening practices.</p> <p>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 investment manager, such as lease assignments, that may have an effect on exposure levels. Financial products 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.</p> <p>During the reference period, the Threadneedle Property Unit Trust Luxembourg Feeder SA SICAV-SIF held on average 5.45% of the total units issued by the Threadneedle Property Unit Trust (the "Master Fund"). The disclosed impact figure for the indicator is calculated on the basis of and represents this percentage of units held in the Master Fund.</p>
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	60.25 (EPC Estimated Rental Value)		Coverage: 97.2%	<p>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 (EPC) 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</p>

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Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation ¹	Actions taken, actions planned and targets set for the next reference period
					<p>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.</p> <p>During the reference period, the Threadneedle Property Unit Trust Luxembourg Feeder SA SICAV-SIF held on average 5.45% of the total units issued by the Threadneedle Property Unit Trust (the "Master Fund"). The disclosed impact figure for the indicator is calculated on the basis of and represents this percentage of units held in the Master Fund.</p>

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	71.64%	n/a	Coverage: 73.41%	<p>Deforestation is included as part of ESG scores where deemed material by SASB. These scores are integrated into investment research.</p> <p>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. Our planned activities include the development of 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.</p> <p>We intend to 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.</p> <p>Engagement activities undertaken by the Active Ownership team relating to deforestation will be reported in the next PAI Statement.</p>

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	2,839.33	n/a	46% Coverage (% of total Gross Asset Value)	<p>Ongoing collation of energy data from landlords 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 Net Zero Carbon audit programme to reduce carbon emissions.</p> <p>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. During the reference period, the Threadneedle Property Unit Trust Luxembourg Feeder SA SICAV-SIF held on average 5.45% of the total units issued by the Threadneedle Property Unit Trust (the "Master Fund"). The disclosed impact figure for the indicator is calculated on the basis of and represents this percentage of units held in the Master Fund.</p> <p>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).</p> <p>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 etc.</p> <p>Implementation of recommendations from Net Zero Carbon audit programme to reduce carbon emissions.</p>
		Scope 2 GHG emissions generated by real estate assets	2,700.20	n/a	92% Coverage (% of total Gross Asset Value)	
		Scope 3 GHG emissions generated by real estate assets	9,478.67	n/a	68% Coverage (% of total Gross Asset Value)	
		Total GHG emissions generated by real estate assets	15,018.20 0.05 (Net Lettable Area)	n/a	82% 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	0.06	n/a	82% Coverage (%of total Gross Asset Value)	<p>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.</p> <p>During the reference period, the Threadneedle Property Unit Trust Luxembourg Feeder SA SICAV-SIF held on average 5.45% of the total units issued by the Threadneedle Property Unit Trust (the "Master Fund"). The disclosed impact figure for the indicator is calculated on the basis of and represents this percentage of units held in the Master Fund.</p> <p>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 Net Zero Carbon audit programme to improve energy efficiency.</p> <p>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.</p> <p>During the reference period, the Threadneedle Property Unit Trust Luxembourg Feeder SA SICAV-SIF held on average 5.45% of the total units issued by the Threadneedle Property Unit Trust (the "Master Fund"). The disclosed impact figure for the indicator is calculated on the basis of and represents this percentage of units held in the Master Fund.</p>

Table 3

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

Indicators applicable to investments in investee companies						
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 for social and employee, respect for human rights, anti-corruption and anti-bribery matters						
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	0.00	n/a	Coverage: 73.27%	<p>Discrimination issues were included as part of our global norms screening data (UNGC, OECD and ILO), as described above.</p> <p>Actions planned include the monitoring of companies with respect to incidences of discrimination, for example engaging on racial discrimination and clearly laying out key priorities regarding corporate labour management.</p> <p>We will also review and enhance our social engagement approach to include systemic change and/or mitigation approaches to incidents of discrimination. This will include escalation activities where we believe engagement responses have been insufficient.</p> <p>Engagement activities undertaken by our Active Ownership team relating to discrimination will be reported in the next PAI Statement.</p>
Indicators applicable to investments in sovereigns and supranationals						
Governance	21. Average corruption score	Measure of the perceived level of public sector corruption using a quantitative indicator	65.22	n/a		<p>Within sovereign ESG scoring models 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</p>

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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
		explained in the explanation column				and may impact valuations. We will further integrate ESG scores and considerations into our sovereign investment processes. 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	1.25	n/a		Within sovereign ESG scoring models 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. We will continue to review and expand our approach to sovereign engagement.

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

Our approach to identification, prioritisation and mitigation of material ESG risks, which include PAIs where relevant, is set out in our Responsible Investment policy. For a full list of policies please see [our website](#). The governing body of TMLSA reviewed these policies on 7 December 2022.

The policies are overseen and maintained by the firm's Responsible Investment team, in conjunction with the Investment teams and Legal and Compliance teams. During the reference period engagement activity was overseen by the investment function. 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 issuers 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 fundamental research, we use additional sources to identify and assess the probability of occurrence and severity of PAIs that includes ESG-data from third-party data providers, publicly available information, company disclosures, and proprietary analytical tools. This approach is complimented by our long history of direct engagement with investee companies to assess the scope and severity of ESG issues, the quality of managements' sustainability practices, as well as how adverse impacts can be alleviated.

Across the industry there is a shortage of objective data relating to PAIs. 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 data providers (which may be the case for high yield, small- or mid-cap companies in emerging markets, as well as direct property and infrastructure investments) our investment teams may carry out additional proprietary research on potential adverse impacts on a case-by-case basis.

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, including the financial materiality of risk issues in accordance with SASB Standards, IFC Performance Standards, the Corporate Development Framework, and the UK's Development Finance Institution (CDFI)
 - 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)
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- 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 PAIs.

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 recognise 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 and proxy voting policy. 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.

Going forward, our active ownership approach will be governed by our newly developed [engagement policy](#). We define engagement 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. 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 foremost 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 such as PAIs. 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 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.

From 1 January 2023, TMLSA will also be part of the firm's engagement programme structured around seven high level themes:

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

These themes have underlying sub themes which align with PAIs. Note engagement tracking was not enabled for TMLSA for this reference period but will be available for future reporting.

We set specific engagement objectives (“Objectives”) and track progress against these to assess achievements (“Milestones”) and determine next steps. For future periods TMLSA will also follow this procedure. These Milestones recognise 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.

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 TMLSA, 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.
