

ARTICLE 10

Promotion of environmental or social characteristics and of sustainable investments

ESG Investment Guidelines

The Threadneedle (Lux) – Pan European ESG Equities fund adopts environmental, social and governance (“ESG”) investment criteria as set out in their ESG Investment Guidelines, which may be amended from time-to-time.

The key components to the ESG Investment Guidelines are as follows:

1. ESG exclusion screening, which aims to exclude companies that are unable to satisfy the ESG Investment Guidelines from time to time. By way of example, it may seek to exclude companies where a significant element of the business revenue is derived from activities such as the manufacture of controversial weapons, tobacco, gambling services, or companies that breach accepted international standards and principles;
2. Companies that do not satisfy this exclusion screening may be assessed as suitable for investment by the Portfolio, if in the opinion of the Sub-Advisor, they are clearly demonstrating improving ESG characteristics. By way of example, this may include companies that are actively reducing their share of business revenue derived from the type of activities described above.

Social Rating Methodology

For the Threadneedle (Lux) – European Social Bond fund, the investment manager selects debt securities based on credit analysis and the social rating and categorisation produced under the Social Rating Methodology. The Social Rating Methodology is a proprietary categorisation and rating model developed by the fund’s investment manager, which analyses the social characteristics of each potential investment. Under the methodology, each investment will be analysed under a two-stream process that:

1. assesses the broad social intensity and intentionality associated with the use of a bond’s proceeds, to categorise it as either an impact investment, an investment with impact, as development finance or as being general financing;
2. applies a three stage assessment model that examines and scores nine aspects of the focus and social outcomes attributable to a bond, across fields of social development such as affordable housing, health and welfare, education, employment, access to services and economic regeneration and development, to derive a numerical score that, subject to a de-minimis threshold, produces a social rating of minor, moderate, good or strong. A bond rated as, or whose rating falls, below the de-minimis threshold is subject to review and re-categorisation as general financing.

The categorisation and ratings are then used in constructing the portfolio.



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