

# ARTICLE 10 DISCLOSURE

# RESPONSIBLE INVESTING PORTFOLIO INVESTMENT GUIDELINES

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## Promotion of environmental and social characteristics

The Threadneedle (Lux) European Select fund promotes environmental and social characteristics by integrating a range of responsible investment (RI) measures into their investment decision-making process.

## Assessing the material impact of ESG factors in the fund

Our proprietary ESG materiality model provides our global investment team with a robust framework and enhanced analysis of companies around the world. Part of our research toolkit, the model helps our analysts to identify and assess potential material ESG risk and opportunity exposures in the assets we are planning to, or are already invested in. The model provides an evidence-based indicator into how effectively a company appears to be managing its material ESG risks. It builds on the Sustainability Accounting Standards Board framework, which identifies the most financially material ESG risk factors for 77 different sectors.

The ESG materiality model draws on a large amount of published data. Through the use of cloud-based analytics and data science, the outputs are combined to provide an overall assessment, expressed as a numerical rating from 1 to 5. A 1 rating provides an initial assessment that indicates a company is managing ESG risks well relative to its peers. Conversely a company rated 5 provides an initial assessment that a company is managing their material ESG risks less well relative to its peers.

The ratings are a research input that help our global investment team gain deeper insights into the specific issues potentially relevant for an investment opportunity, including informing engagement with management, enhancing qualitative research and improving investment recommendations. This research intensity supports portfolio managers in assessing and managing a portfolio's overall weighted ESG exposure on a rolling 12-month basis relative to its reference index measured according to Columbia Threadneedle's ESG Materiality Rating.

## Controversies exclusions

Where companies may be involved in controversies, either existing holdings or potentially new investments, we will focus our research and engagement on the issues and risks. We will seek to understand the materiality of the issue and if it constitutes a substantive breach of accepted international standards and principles – in particular the UN Global Compact, the UN International Labour Organization (core) Labour Standards, and the UN Guiding Principles on Business and Human Rights. Where the significance or pattern of controversies associated with a company or its operations, is flagged as a breach, we will exclude the company from the Fund. Following our analysis there may be some instances, where the Portfolio Manager deems there are **tangible mitigating factors** in support of a Company in breach.

## Tangible mitigating factors

Tangible mitigating factors are evidenced reforms or responses that show that action has (or is) being taken to address the risk of a controversial issue being repeated. This could include operational changes in the board or management, and firm commitments and plans to implement recommendations arising from independent investigations. In assessing tangible mitigating factors, we will engage with the company and consideration will be given to the nature and cause of major controversies (including situational factors and any re-occurring pattern of issues), and whether they are current or legacy issues.

Where a controversy arises in an existing investment, portfolio managers follow an established process. Where there are grounds to believe tangible mitigating factors may exist, they can gain approval for a period of up to 3 months to engage with the company, review the situation and either

- (i) divest the holding
- (ii) get approval to extend the review period by up to a further 3 months to enable the completion of mitigation plans being engaged on; or
- (iii) get approval to retain the holding based on the existence of tangible mitigating factors.

In relation to new investments, in line with (iii) above, a portfolio manager may get approval to invest based on the existence of tangible mitigating factors. Approval must be obtained from the relevant investment department senior executive group (or their delegates) based on a review of the case made for an exception. Approved exceptions are monitored and reviewed regularly.

## Assessing climate exposures and mitigating risk

Analysis of climate exposures is integrated into our research. Two baseline metrics, in particular, are used to frame this work and monitor portfolio exposures:

- Weighted-average carbon intensity
- Carbon emissions

These form part of a developing framework looking at other aspects of climate risks and opportunities, including:

- carbon lock-ins and transition pathways,
- physical climate risks (e.g. associated operational, supply chain and market risks); and
- the quality of management engagement and practices across high intensity sectors.

This work helps portfolio managers to assess a company's climate focus by looking at its management and effectiveness in addressing climate risks such as carbon emissions, and shapes our overall view of a company's potential contribution to a portfolio's relative climate exposures compared to its benchmark. In integrating this into our research we draw on a range of ESG and climate related research analytics, as well as our activities under our company engagement policy.

## Purposeful dialogue with companies

In cases where management and the board have not demonstrated adequate efforts to be transparent about their standards of practice and are considered to be failing to adequately address current or emergent risks, such as from climate transition, consideration may be given to engagement and related proxy voting action.

Our ESG and climate related analytics can provide actionable insights to inform our engagement approach relating to material ESG factors. This supports the promotion of the fund's environmental and social characteristics, as well as encompassing a focus on sustainability risks, operational excellence, capital allocation policies and managerial incentives through purposeful dialogue.

Engagement and proxy voting (where applicable) are integral to our investment process and a key tool to influence the management of material ESG risks and opportunities in the portfolio's holdings. This consultative, research-driven approach to engaging corporate leadership helps us understand the dynamics, opportunities and risks inherent in the portfolio. This enables us to address concerns, promote good practice, and act in the best interests of our clients and their capital within the risk profile of a given strategy.

This stewardship approach helps promote and improve the environmental and social characteristics of the portfolio over time, and contribute to long-term investment returns. It can also support real-world positive change that benefits all stakeholders, the environment and wider society.

Where engagement and proxy voting fail to address the concerns and fail to support the funds environmental and social characteristics, the weight of exposures may be reduced or relevant holdings divested.

Click here for more information about our Stewardship approach <https://www.columbiathreadneedle.co.uk/en/intm/about-us/responsible-investment/>

To find out more visit  
**COLUMBIATHREADNEEDLE.COM**

or call 0800 953 0134\*

\*Please note. We record calls for your protection and to improve our standards



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