

**Article I.** Threadneedle (Lux) – Global Smaller Companies

**Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852**

**Product name:** Threadneedle (Lux) – Global Smaller Companies **Legal entity identifier:** 549300U3LV1YG52NP397

## Environmental and/or social characteristics

### Does this financial product have a sustainable investment objective?

**Yes**

**No**

It will make a minimum of **sustainable investments with an environmental objective:** \_\_\_\_\_%

- in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

It will make a minimum of **sustainable investments with a social objective:** \_\_%

It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of \_\_\_\_\_% of sustainable investments

- with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- with a social objective

It promotes E/S characteristics, but **will not make any sustainable investments**

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



### What environmental and/or social characteristics are promoted by this financial product?

While prioritising the financial outcomes of the Portfolio, the Sub-Advisor promotes environmental and social characteristics by integrating the following responsible investment measures into the investment decision-making process, each of which is explained in further detail below:

- Using the Columbia Threadneedle ESG Materiality Rating model, which the Portfolio uses to compare favourably with the MSCI World Small Cap Index on material ESG criteria;

Examples of the environmental and social characteristics promoted by the Portfolio as a result of its favourable ESG Materiality profile, include but are not limited to:

- Environmental: energy efficiency, reduction of greenhouse gas emissions, treatment of waste;
- Social: respect of human rights and workers' rights, human resource health and safety and diversity.

The Sub-Advisor also excludes companies which are in breach of accepted international standards and principles of governance as determined by the Sub-Advisor and other exclusions such as controversial weapons and nuclear weapons.

It does not use a reference benchmark for the purpose of attaining the environmental and/or social characteristics

● ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

The Portfolio has the following sustainability indicators, reflecting the measures explained above:

- The primary indicator is the positive weighted average ESG Materiality rating of the Portfolio versus the MSCI World Small Cap Index, assessed over rolling 12-month periods.
- The Sub-Advisor will invest at least 50% of the portfolio in companies that have a strong ESG Materiality Rating. Where necessary, the Sub-Advisor may assess companies that are not covered by its ESG Materiality Rating Model using fundamental research, or engage with companies that have a low ESG Materiality rating for improvement, in order to achieve this 50% minimum commitment.
- The Sub-Advisor will exclude companies that it determines are in breach of accepted international standards, for example the UN Global Compact Principals.

As these indicators form the basis of the environmental and/or social characteristics promoted by the Portfolio, they are also the binding elements of Portfolio's ESG strategy – further information on this is provided below.

● ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

N/A

● ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

N/A

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

*How have the indicators for adverse impacts on sustainability factors been taken into account?*

N/A

*How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

N/A

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



### **Does this financial product consider principal adverse impacts on sustainability factors?**

- Yes
- No

No, the Sub-Advisor does not consider the principal adverse impacts of investment decisions on sustainability factors for the Portfolio.



### **What investment strategy does this financial product follow?**

The Portfolio’s investment strategy is to seek capital growth through investment in equity securities issued by smaller companies globally. The Portfolio will invest principally in companies that are no larger by market capitalisation than the largest constituent of the MSCI World Small Cap Index. In order to achieve the promotion of environmental and social characteristics, the Sub-Advisor will tend to favour companies which score strongly on the Columbia Threadneedle ESG Materiality rating model. Companies that breach international standards and principles as determined by the Sub-Advisor are also excluded from the portfolio.

To support and enhance the promotion of environmental and social characteristics, the Sub-Advisor will seek proactive engagement with companies with a view to influencing management teams to improve their practices, for example on issues relating to carbon emissions.

The investment strategy is maintained on a continuous basis as part of the investment process as follows: The exclusion policy is adhered to with the application of strict pre-trade restrictions and is monitored on an ongoing

**The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.

basis, and the positive ESG Materiality rating versus the index is monitored on a daily basis by the Sub-Advisor's compliance systems.

● ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

The following elements of the ESG investment strategy are binding on the Portfolio:

**1. Columbia Threadneedle ESG Materiality Rating**

The Portfolio must maintain, overall, a positive weighted average ESG Materiality rating when compared with the MSCI World Small Cap Index over rolling 12-month periods, and must adhere to the exclusion policies. Further detail on each of these is set out below.

Over rolling 12-month periods, the Portfolio aims to compare favourably with the MSCI World Small Cap Index according to the Columbia Threadneedle ESG Materiality Rating (the "Model") - a proprietary model which builds on the Sustainability Accounting Standards Board (SASB®) framework. The SASB framework identifies the most financially material environmental, social and governance ("ESG") risk factors across a broad range of sectors.

The Model allows the Sub-Advisor to undertake enhanced analysis to identify and assess potential material ESG risk and opportunity exposures in the securities held by the Portfolio, or planned for investment by the Portfolio. The Sub-Advisor will tend to favour companies which score strongly on the Columbia Threadneedle ESG Materiality Rating, therefore giving the Portfolio a positive tilt in favour of ESG characteristics when compared with those of the MSCI World Small Cap Index, on a rolling 12-month basis. However, subject to the exclusion policies below, the Sub-Advisor is not bound to invest only in companies with a good ESG score and may, to meet the investment objective of the Portfolio, invest in companies with an ESG score which may be poorer than that of the Index average.

Where sufficient data is available, the Model rates securities on a numerical scale. A good rating indicates a company is managing ESG risks well relative to its peers, and a poor rating indicates a company is managing ESG risks less well relative to its peers. The ratings assist the Sub-Advisor's research into issues potentially relevant for an investment opportunity, including informing engagement with management, enhancing qualitative research, and management of the Portfolio's weighted ESG exposure on a rolling 12-month basis relative to the index.

The Sub-Advisor must invest at least 50% of the portfolio in companies that have a strong ESG Materiality rating. Where necessary, the Sub-Advisor may assess companies that are not covered by its ESG Materiality Rating Model using fundamental research, or engage with companies that have a low ESG Materiality rating for improvement, in order to achieve this 50% minimum commitment.

**2. Exclusions: breach of international standards**

The Portfolio excludes companies that breach accepted international standards and principles as determined by the Sub-Advisor, such as, but not limited to, the United Nations Global Compact and the United Nations Guiding Principles on Business and Human Rights. Further detail on the exclusions is set out below.

<b>3. Other Exclusions</b>
Controversial Weapons, in line with the Columbia Threadneedle Controversial Weapons Policy
Nuclear Weapons - Direct involvement: issuers involved in warheads and missiles, fissile material, exclusive-use components

● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

There is no commitment to reduce the scope of investments by a minimum prior to the application of the investment strategy. However, application of the exclusion policy will have the effect of reducing the number of securities available for investment by the Portfolio.

● ***What is the policy to assess good governance practices of the investee companies?***

All companies in which investments are made are subject to a pre-investment good governance assessment and ongoing post-investment review of governance practices. The Sub-Advisor uses third-party data to assess a company’s governance practices and supplements this with its fundamental research.

**Pre-investment:** The Sub-Advisor assesses all companies before investment. It may engage with a company to better understand or to encourage improvements relating to any flagged issues. If, however, it is concluded from the assessment that the company demonstrates poor governance practices, the Sub-Advisor will not invest in its securities.

**Post-investment:** Investee companies are monitored on an ongoing basis to confirm that there has been no material diminution in governance practices. If any issues are flagged, the Sub-Advisor may engage with the company to better understand these as part of its review. However, where it is considered that the company no longer demonstrates good governance practices, the securities will be divested from the portfolio.

The Sub-Advisor has developed a data-driven model which flags poor practices and controversies relating to the four pillars of good governance as outlined by SFDR to inform its assessment and monitoring of investee companies. The model covers:

1. Board structure: including board and key committee composition, diversity and inclusion, and commitments and policies.
2. Compensation: including pay-for-performance, use of equity, non-executive pay, and termination practices.
3. Employee relations: including compliance with labour standards, such as child labour, discrimination, and health and safety.
4. Tax quality: including tax reporting and corporate tax gap.

**Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.**



**Asset allocation** describes the share of investments in specific assets.

## **What is the asset allocation planned for this financial product?**

**Concerning the planned proportion of investments used to meet the environmental and/or social characteristics promoted by the Sub-Fund (#1 Aligned with E/S characteristics):**

The Portfolio invests principally in the equity securities of smaller companies across the globe. Subject to the exclusion policy, there are no restrictions on the sectors in which they operate.

A minimum of 75% of the equity securities of the portfolio will be subject to the application of the ESG Materiality Rating Model. These securities will be included in the calculation of the weighted average ESG Materiality Rating of the Portfolio.

The minimum proportion of investments held in the Portfolio used to promote the environmental or social characteristics is 50% of its total net assets. As detailed above, the ESG Materiality Rating Model is one of the measures used to meet the environmental or social characteristics promoted by the Portfolio. The Portfolio may invest in companies with poorer ESG Materiality ratings than the index but will tend to favour companies with good ratings, in order to ensure that the weighted average ESG Materiality rating of the Portfolio is superior to that of the MSCI World Small Cap Index.

At least 50% of the investments held in the Portfolio will be in companies that have a strong ESG Materiality rating. Only investments in companies that have strong ESG materiality ratings are considered as aligned with the E/S characteristics promoted by the Portfolio. Companies with poorer ratings are not aligned. Where necessary, the Sub-Advisor may assess companies that are not covered by its ESG Materiality Rating Model using fundamental research, or engage with companies that have a low ESG Materiality rating for improvement, in order to achieve this 50% minimum commitment.

All equity investments are subject to the exclusion policy, ensuring minimum environmental and social safeguards are in place even for companies that do not have a strong ESG Materiality rating, or which have a rating poorer than that of the benchmark.

**Concerning the other investments (#2 Other):**

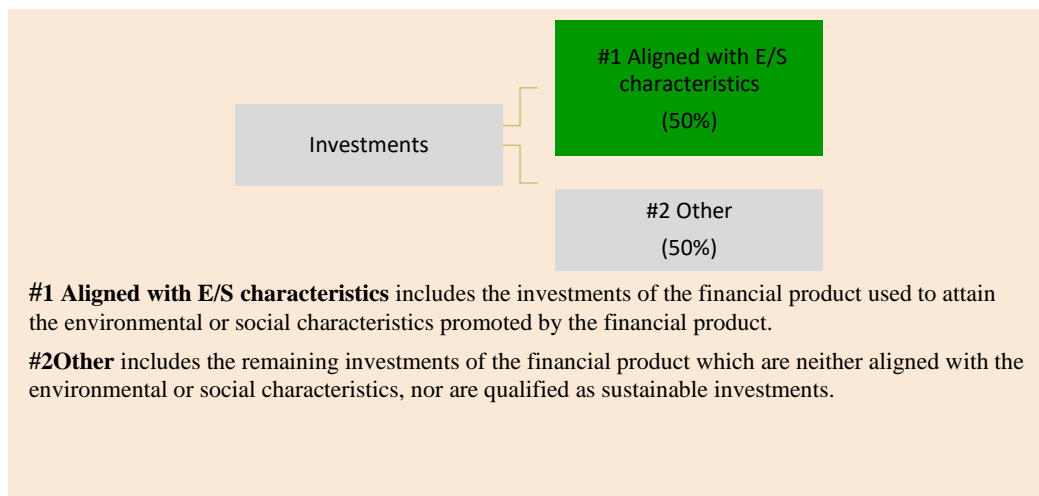
Other investments may include (i) ancillary liquid assets (i.e. bank deposit at sight) which are held for the purposes of liquidity management; (ii) bank deposits, money market instruments or money market funds held for treasury purposes; and (iii) derivatives for hedging purposes.

These investments are not used to meet the environmental and social characteristics of the Portfolio.

In light of the above, the planned maximum proportion of investments which are not used to contribute to the environmental and social characteristics promoted by the Portfolio is 50% of its total net assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

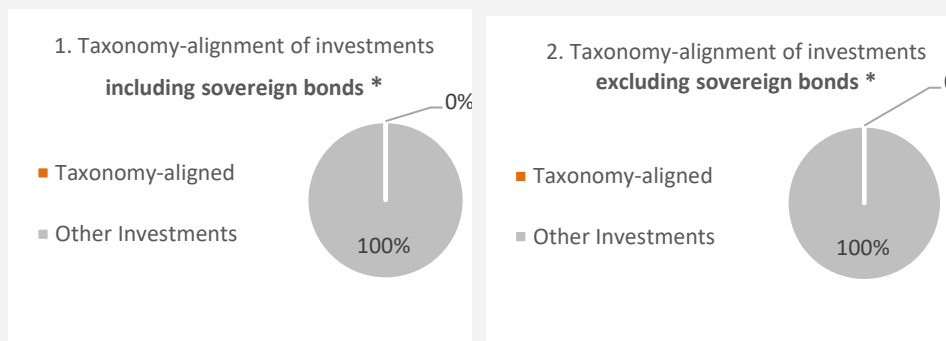
● *How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?*

The product does not use derivatives for the purposes of attaining the environmental or social characteristics.

**To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

The product does not commit to holding a minimum proportion in sustainable investments with an environmental objective aligned with the EU Taxonomy.

*The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

● *What is the minimum share of investments in transitional and enabling activities?*

N/A



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

N/A



**What is the minimum share of socially sustainable investments?**

N/A



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

All equity investments are subject to the exclusion policy, ensuring minimum environmental and social safeguards are in place even for companies that do not have a strong supportive ESG Materiality rating.

Other investments may include (i) ancillary liquid assets (i.e. bank deposit at sight) which are held for the purposes of liquidity management; (ii) bank deposits, money market instruments or money market funds held for treasury purposes; and (iii) derivatives for hedging purposes.



**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

No, the MSCI World Small Cap Index is not designated as a reference benchmark for the purpose of attaining the environmental and/or social characteristics that the Portfolio promotes.

● *How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?*

N/A

● *How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?*

N/A

● *How does the designated index differ from a relevant broad market index?*

N/A

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.



- *Where can the methodology used for the calculation of the designated index be found?*

N/A



**Where can I find more product specific information online?**

**More product-specific information can be found on the website:**

*<https://www.columbiathreadneedle.lu/en/retl/our-funds/find-your-fund>*

