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2021 Impact Report

CT (Lux) Sustainable Opportunities European Equity Fund



Fund philosophy

The CT (Lux) Sustainable Opportunities European Equity Fund aims to drive long-term performance and encourage a positive contribution to broader social and environmental issues, by investing in a portfolio of 30-50 companies domiciled in Europe that are positively impacting society and the environment.

Specifically, we look for companies with innovative products and services that are making a real-world impact on society and the environment. We consider how central sustainability is to a company's strategy, and we expect more than 50% of revenue to be positively aligned to long-term sustainability themes, as proxied by the UN Sustainable Development Goals (SDGs), or be on a pathway to doing so in 2-3 years.

The Fund is underpinned by our Avoid, Invest, Improve philosophy:

 **Avoid**
Avoid companies with damaging or unsustainable business practices.

 **Invest**
Invest in companies that make a positive contribution to society and the environment.

 **Improve**
Use influence as an investor to encourage best practice management of ESG issues through engagement and voting.

 Our Impact report analyses the social and environmental impact of the Fund, together with our active ownership (engagement and voting) activities. We have also mapped the portfolio's overall alignment to the SDGs.

Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

SDG Alignment

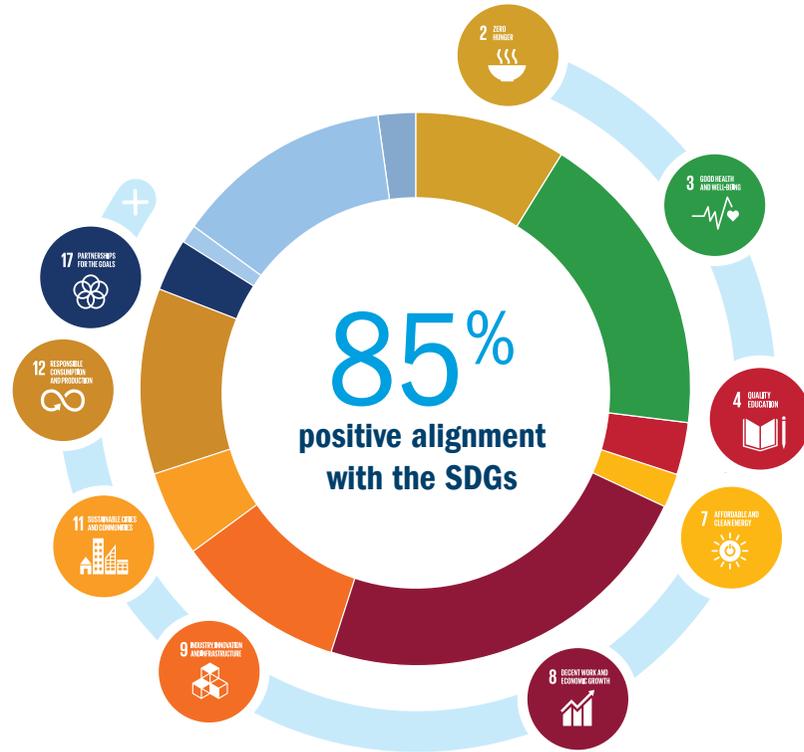
The UN Sustainable Development Goals (SDGs) are 17 goals that set out a roadmap for a more sustainable world by 2030, covering issues such as poverty, health and wellbeing, and climate change.

Discover how the Fund is aligned to the United Nations Sustainable Development Goals, based on an analysis of the sources of revenue for each portfolio holding.

The SDGs most represented remain SDG8 – Decent Work and Economic Growth and SDG3 – Good Health and Well-being. Companies aligned with SDG8 include German-based business software and solutions provider **SAP**, which helps businesses streamline their operations, and Dutch multinational **ASML Holding**, which supports innovation in the semiconductor industry by providing patterning solutions that drive advancement in microchip production. Pharmaceutical companies **Novo Nordisk**, **AstraZeneca** and **GlaxoSmithKline** are examples of companies linked to SDG3, as well as Swiss-based **Lonza Group**, which optimises scientific innovation and manufacturing technology to enable healthcare industries, such as pharmaceuticals and nutrition, serve their patients and clients.

13% of business activities undertaken by companies in the portfolio have no specific SDG link. This includes, for instance, some of the wealth management divisions of the financial services firms we invest in, as well as our holding in online food ordering company **Delivery Hero**.

CT (Lux) Sustainable Opportunities European Equity Fund



Revenue alignment breakdown:

- + Positive 85%
- Negative 0%
- Neutral 13%
- Cash and Sovereigns 2%

Source: Columbia Threadneedle Investments, as at 31st December 2021, designed for illustrative purposes, subject to change. If you would like a further revenue alignment breakdown by SDG target, please contact your Sales representative. SDGs with less than 2% positive alignment are not shown.

Sustainability Leaders

Global sustainability challenges create opportunities for long-term investors, including renewable energy technologies, products to mitigate the inefficient use of global resources, and education for financial inclusion.

This does not constitute a recommendation to buy or sell any particular security.

Example holdings held across in the CT (Lux) Sustainable Opportunities European Equity Fund:



National Express



Alfen



Novo Nordisk



DSM



Wolters Kluwer

Provides public transport services across the UK, Europe, North Africa, North America and the Middle East. In providing public transport, National Express encourages greener cities and increased social mobility.

This Dutch company is one of the leading European manufacturers of EV* charge points. They have an enviable first-mover advantage in key countries and a wealth of knowledge in their legacy smart grid business.

Pharmaceutical company focused on providing treatments for people living with serious chronic diseases such as diabetes, obesity, blood diseases and growth disorders.

Speciality ingredient company DSM is allocating capital towards solving some of the world's most pressing sustainability challenges. Their pipeline is full of innovative solutions, such as their enzyme Bovaer which suppresses methane production in cow guts

This company develops a range of software solutions, including in healthcare, where their UpToDate package puts the latest science and evidence into the hands of doctors and physicians to get the best outcomes and improve patient care and quality.

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Understanding our impact metrics

Over the following pages we show how the portfolios rank relative to various sustainability-orientated metrics. These relate to environmental stewardship, fairness and equality, and economic development.



Assessing our impact

1

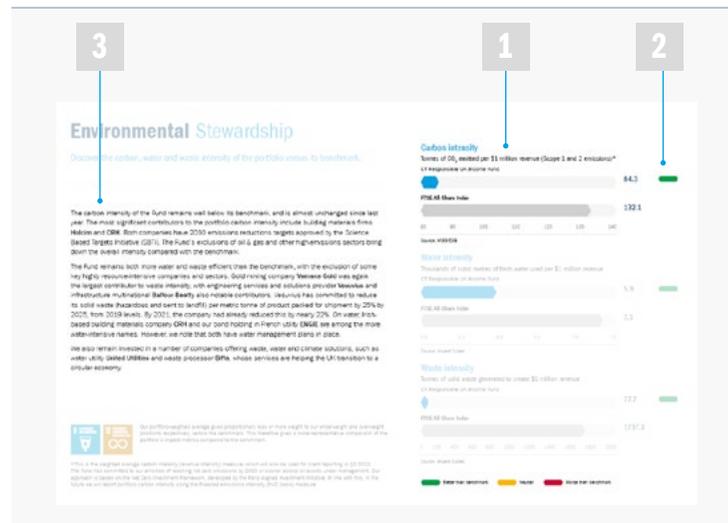
Using these metrics, we aim to show the fund's sustainability performance, in comparison with its benchmark – in this case the MSCI Europe index. Where there is no data available at time of reporting, external data provider Impact Cubed provided an estimation.

2

A 'positive' performance, indicated by a green circle, shows that the companies in the Fund have stronger sustainability characteristics than the benchmark; with a 'negative' performance, represented by a red circle, indicates weaker sustainability characteristics. A rank in line with the benchmark results in a neutral ranking.

3

For each metric we explain the key reasons for the portfolio's sustainability performance, discuss notably contributing companies and highlight where we will be seeking to drive improvement over time.



“ These metrics assess companies’ conduct separate to the products and services they provide, allowing us to provide a well-rounded overall analysis of our portfolios’ impact. ”

Environmental Stewardship

Discover the carbon, water and waste intensity of the Fund versus its benchmark.

The portfolio-weighted carbon intensity of the Fund remains lower than its benchmark. The Fund's exclusions of companies with fossil fuel reserves bring down the overall intensity, as well as its focus on investing in positive sustainability leaders. While gases and technology specialist **Air Liquide** remains the biggest contributor to the Fund's carbon intensity, our new holding in **Lenzing**, which produces fibres made from natural wood to be used in the textile industry, was also a significant contributor. The company has set a target to reduce CO2 emissions (scope 1, 2 and 3) by 50% per ton of product by 2030 compared to a 2017 baseline, which has been scientifically verified and approved by the Science Based Targets Initiative (SBTi).

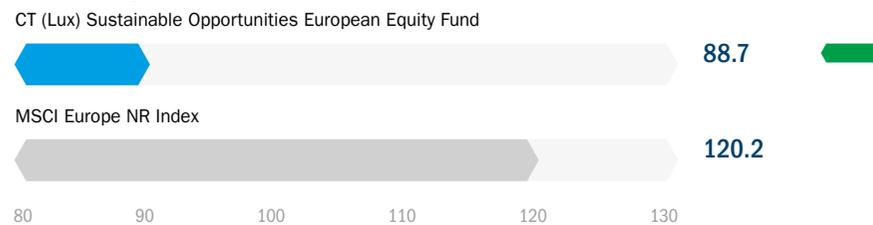
Both water and waste intensity are also below the benchmark, with the low overall exposure to the resource-intensive extractives sectors playing a key role in explaining this. Our new holding **Lenzing** is one of the more water and waste-intensive companies in the Fund. Dissolving wood pulp and fibre manufacturing require large amounts of water while also producing wastewater. However, the company is committed to improving in both these areas as part of its wider sustainability strategy to achieve a circular business model, with water use and pollution identified as a key material topic. Norwegian seafood company **Mowi** is the most water-intensive company in the Fund, and is relatively waste intensive too. During 2021, the company updated its Freshwater Policy with a new target to achieve a 10% reduction on water intensity at its processing plants located in medium-high water scarcity risk areas by 2025, using 2018 as a reference year, and initiated several water-saving initiatives across its processing plants during the year. In terms of waste, by 2021 more than 96% of the non-hazardous waste generated by Mowi's processing plants was already recycled, reused or recovered as energy, and the company introduced new initiatives to improve the recycling and re-use of plastics.



Aside from reasons discussed in the above commentary, portfolio impact metrics can vary year on year due to increased company data availability and accuracy.

Carbon intensity

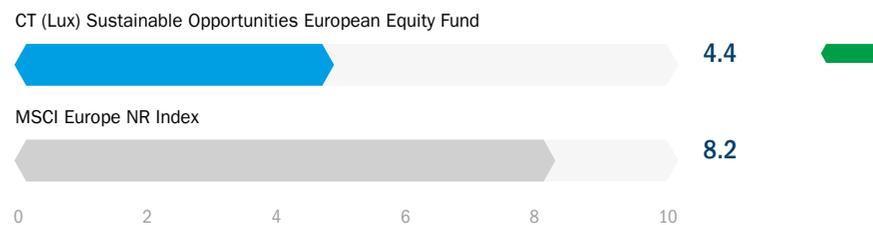
Tonnes of CO₂ emitted per \$1 million revenue (Scope 1 and 2 emissions)



Source: MSCI ESG

Water intensity

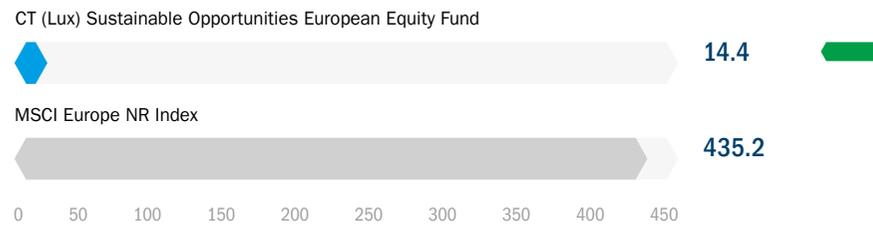
Thousands of cubic metres of fresh water used per \$1 million revenue



Source: Impact Cubed

Waste intensity

Tonnes of solid waste generated to create \$1 million revenue



Source: Impact Cubed

Better than benchmark Neutral Worse than benchmark

Fairness and Equality

Here we provide two metrics to give an indication of the portfolio's performance in relation to aspects of fairness and equality: gender equality at Board level, and the ratio of top executive pay to the average employee's salary.

The Fund's board and executive-level gender equality level is in line with the benchmark. Dutch-based scientific innovator **Royal DSM**, semiconductor manufacturer **Infineon Technologies** and Norwegian financial services company **DNB** all have 50% female representation across executive and board positions, while other companies such as **Schneider Electric** and **Air Liquide** also demonstrate a good gender balance here. At the timing of writing, no companies had no female representation at these senior levels; however, a few companies still have less than a third of female representation at the board or executive level, including private equity firm **Partners Group** and specialist ingredient provider **Kerry Group**.

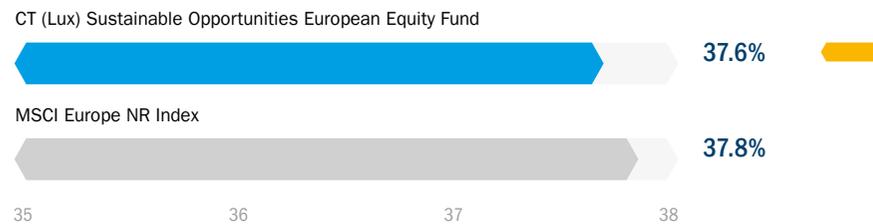
The pay metric estimates the multiplier between average and CEO pay. Broadly speaking, executive pay levels rebounded in 2021 after the worst of the pandemic. However, the Fund's executive pay metric remains lower than that of the benchmark. A number of financials companies exhibit a relatively small executive pay ratio, including Norwegian financial services companies **Storebrand** and **DNB**, as well as **Prudential** and **Legal & General**. Industrials businesses such as **Vestas**, **Schneider Electric** and **RELX** are meanwhile among the companies with the highest ratios.

Both executive pay and Board diversity are fully integrated into our voting policy. We will vote against management where companies fail to meet our standards, and we regularly engage to achieve improvements in practice.



Gender

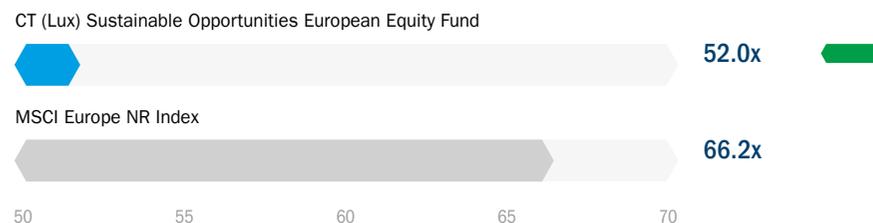
% female directors on company board



Source: MSCI ESG

Executive pay

CEO pay relative to average employee compensation



Source: Impact Cubed

“ The Fund is in line with the benchmark in terms of board-level gender equality, but outperforms in terms of executive pay ratios. ”

▶ Better than benchmark
 ▶ Neutral
 ▶ Worse than benchmark

Economic Development

To gain a fuller understanding of impact, we consider here the effect of our investments on global inequality, by looking at how companies support economic growth in parts of the world with the greatest needs.

The data in this area reflect the fact that this is a European-orientated fund, so economic development indicators are of more limited relevance than for global strategies. Overall, the Fund invests in companies with operations in wealthier countries with lower unemployment compared with the benchmark. Financial firm **UBS**, headquartered in Switzerland, contributes to this outcome – but the data does not capture the impact they have through their lending and investment activities, where we see them as taking a leadership position on issues such as climate change. Similarly, we also hold various Norwegian-based financial firms such as **DNB** and **Storebrand**, which are also committed to responsible investing to promote a more sustainable future.

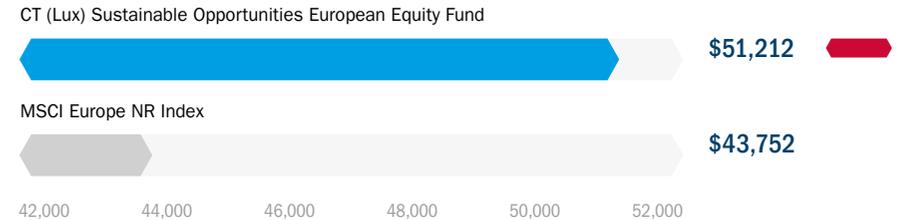
* A higher figure indicates that the companies in the portfolio register less economic activity in low GDP/capita countries, in aggregate, than the benchmark, and hence has a lower impact on development.

** A higher figure indicates that the companies in the portfolio register more activity in high unemployment countries, in aggregate, than the benchmark, and hence has a higher impact on employment.



Economic development

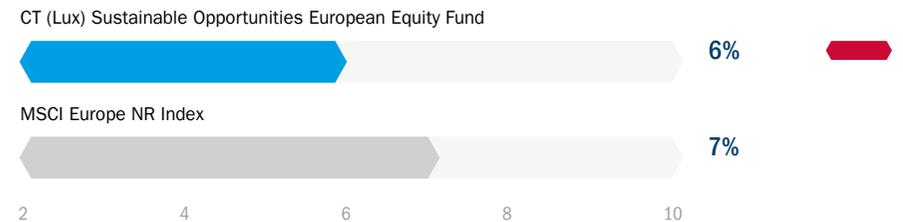
Company geographical spread of operations matched against GDP per capita*



Source: Impact Cubed

Employment

Company geographical spread of employment against unemployment rates provided by the ILO**



Source: Impact Cubed

“ The Fund lags the benchmark both in terms of economic development and employment impact. ”

▶ Better than benchmark
 ▶ Neutral
 ▶ Worse than benchmark

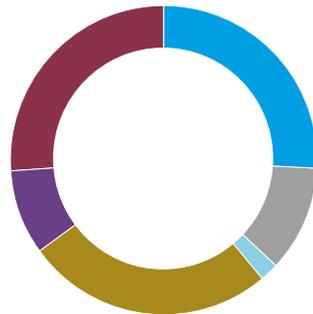
Stewardship overview

We engage with and vote on companies held in the Fund to encourage them to improve their management of ESG issues.

In 2021 we engaged with 22 companies held in the Fund, with the aim of improving their management of ESG issues. Key topics included engagement on climate change, particularly with banks on climate risk management, as well as a collaboration with ShareAction's Chemicals Working Group on decarbonisation strategies for European chemicals companies; labour standards, which included workforce disclosure efforts; and corporate governance, in areas such as remuneration, and ESG governance.

Companies Engaged by Issue

Climate Change	26%
Environmental stewardship	11%
Business Conduct	2%
Human Rights	0%
Labour Standards	26%
Public Health	9%
Corporate Governance	26%



Source: Columbia Threadneedle Investments

37

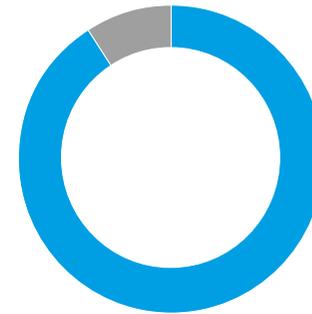
Total meetings voted

91%

With management

9%

Against management



22

companies engaged

13

milestones

Engagement in Practice

Discover two of our 2021 company engagements, and the outcomes achieved.

This does not constitute a recommendation to buy or sell any particular security.



Novo Nordisk



As a signatory to the Access to Medicine Foundation (ATMF), we reached out to Novo Nordisk to discuss the results of the 2021 Access to Medicine Index (ATMI).

The company explained that they find it helpful to compare their scores to their peers, but due to the nature of their business model, they cannot score highly in “Research & Development”.

We also discussed Novo Nordisk’s Changing Diabetes in Children programme and the importance of measuring its real-world impact. We raised our concern that middle-income countries disproportionately benefit from access to medicine initiatives. The company flagged that they use inter- and intra-country pricing

strategies, and have guaranteed a ceiling price of human insulin at US\$3 per vial in both low- and middle-income countries. We commended the company for its long-term ambitions to reach more patients with diabetes, and asked them to consider the opportunities identified by the ATMF, including filing new products for registration in more high-burden countries. We commended Novo Nordisk for contributing US\$50 million to the AMR Action Fund, and encouraged them to organise an annual ESG Investor Event, to enable them to highlight key ESG developments.

Our view: Our call was constructive. We believe the company remains on a positive ESG trajectory.

Smurfit Kappa



Smurfit Kappa



We met with Smurfit Kappa’s board chair to discuss the governance of the company, company-specific sustainability issues, and how the board oversaw the operations during the Covid-19 pandemic.

The chair has served on the board nine years, albeit only as the chair for two. There has been a high level of refreshment in recent years, and we discussed plans for his refreshment in light of UK Governance Code best practice recommendations. We also sought to better understand how the board oversees pertinent sustainability issues within the company and the reporting around that process. A

sustainability committee was established last year, which is still being bedded into the process. In terms of climate action, the company is in the process of establishing a science-based target for emissions reduction. Turning to social issues, we had previously requested that the company signs up to provide disclosure under the Workforce Disclosure Initiative. We followed up on this request by providing additional context as to why we consider this important for stakeholder transparency.

Our view: We are keen to keep discussing sustainability management with Smurfit Kappa, and have requested a further meeting with the Sustainability team to carry out a deeper dive into this.

Contact us

✉ clientsupport@columbiathreadneedle.com

🌐 columbiathreadneedle.com

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How Columbia Threadneedle Investments can help you

Columbia Threadneedle Investments incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria.

To find out more visit [columbiathreadneedle.com](https://www.columbiathreadneedle.com)



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