



Responsible Investing

Columbia Threadneedle (Lux) European High Yield Bond

At a glance

This active bond fund focuses on issuer and security selection to exploit opportunities in the European high yield bond market.

Investment objective and approach

To provide a total return from income and capital appreciation by investing in a well-diversified portfolio primarily of European corporate debt securities issued by companies that are rated below investment grade (as assessed by a credit rating agency).

In line with its active management strategy, portfolio holdings may deviate significantly from those of the index while there is also the flexibility to invest in off-benchmark debt securities.

The fund promotes environmental and social characteristics by integrating a range of responsible investment measures into the investment decision-making process, as well as ensuring that the companies in which the Portfolio invests follow good governance practices.

Key reasons to invest

- 1. High-quality research and security selection:** Our specialist team of portfolio managers and credit research analysts is dedicated solely to high yield. We conduct bottom-up credit research to gain a deeper understanding of issuer and industry dynamics, focusing on issuer and security selection to drive sustainable returns.
- 2. Our size is to our advantage:** With €5bn in assets under management, the size of our European high yield credit business is ideal for managing such strategies. We are large enough to have access to issuers and counterparties yet nimble enough to extract value from security selection.
- 3. Experienced and global team:** Our team of portfolio managers and analysts has experienced several market and economic cycles and assessed how companies and management have performed a variety of different conditions.

Key risks

Investment risks: Investment in debt securities and derivatives.

ESG risks: The Fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions.

Investors could lose some or all their capital and should read the Prospectus for a full description of all risks.

Investment approach

The fund's investment approach is built around strong analyst led credit research, and robust portfolio construction and risk management. We bear in mind the risk of permanent capital loss as well as the asymmetry of potential returns, which is typical in corporate credit investing. Issuer and specific bond selection as well as the avoidance of significant capital loss, we see as our largest sources of performance.

Fundamental credit research and issuer selection: issuer and security selection is driven by a credit research process that surveys the global opportunity set to select those investments that offer the best risk-adjusted returns. Analysis is performed by a team of experienced research analysts who develop independent, fundamental views of the industries and companies they focus upon and their credit quality. Our research process focuses on the micro level, company specific factors which significantly drive credit quality, while additionally factoring in macro factors and top-down themes that can be important drivers of potential return. Our research considers business strategy, management strength, competitive position and Environmental, Social and Governance (ESG) criteria, as well as a variety of financial metrics. The credit analysts deliver formal investment recommendations, risk ratings and internal credit ratings for the issuers they follow. These recommendations and ratings, in combination with a relative value assessment of each issuer, form the basis of security selection.

Portfolio construction: the aim of the portfolio construction process is to own our preferred issues and issuers, expressed in a size that is consistent with the portfolio's risk and return objectives and ensuring that any resulting industry and overall portfolio credit market risk is in line with our team's industry or credit market risk views. We use data, thematic research and issuer research to assess issuer exposure to ESG themes. Our credit research and RI analysts work together to assess and engage with companies on material ESG concerns, evaluating issuers and engaging with management. Duration positions will typically be minimal and all non-euro exposure is hedged back to euro.

Risk management: Risk management follows credit research and portfolio construction as the third (but equally important) element to our investment approach. Risk management is embedded in our investment process and we employ both quantitative and qualitative techniques to measure and manage risk in the portfolio. Each investment recommendation is accompanied by a thesis statement, which includes an issuer risk score. This statement includes the analyst's expectations (and risks around) the evolution of financial metrics, operating results and management behaviour. In addition, analysts set out which parts of the thesis are critical to the recommendation and list the events that might trigger a change in view. These inputs form the basis of portfolio construction, position sizing, risk monitoring and our sell discipline.

The Fund promotes environmental and social characteristics through:



Delivering a positive ESG 'tilt'



Investing in 'sustainable investments'



Applying exclusions



Considering Principle Adverse Impacts



Investing in companies with good governance



Targeting net zero by 2050



Active engagement



A positive Environmental, Social and Governance (ESG) tilt

The fund delivers a positive ESG tilt compared to its ICE BofA European Currency High Yield Excluding Subordinated Financials Constrained Index, measured by our ESG Materiality Rating, on a rolling 12-month basis.

The ESG Materiality Ratings give us an initial view of how a company is managing the ESG risks that are material to its industry.

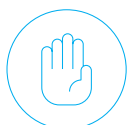
Delivering a positive tilt enables us to focus the portfolio in companies with strong ESG risk management. We can also invest in companies with scope to improve, and actively engage with them to encourage change.



Sustainable investments

The fund has committed to hold a minimum of **20%** of the portfolio in "sustainable investments".

- > We assess the proportion of each company's revenue that is aligned with the **Sustainable Development Goals** (SDGs), using a tool designed by the Responsible Investment team. The majority of the company's revenues must be positively aligned with one or more of the SDGs to be considered sustainable.
- > We analyse companies to ensure they are not doing "significant harm" to any other sustainable objective.



Exclusions

The fund excludes:

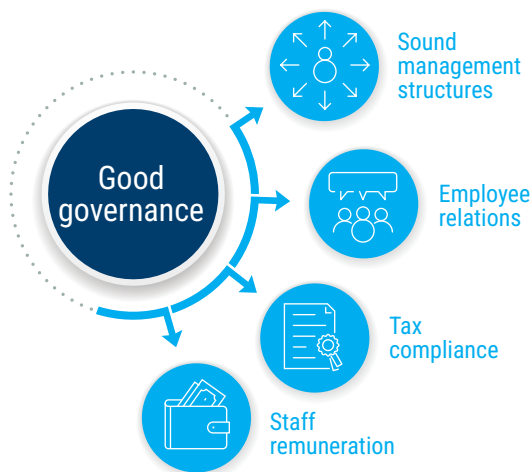
- > Companies we deem are in breach of international standards of practice including:
 - the United Nations Global Compact
 - the International Labour Organisation Labour Standards
 - United Nations Guiding Principles on Business and Human Rights.
- > Companies earning a certain proportion of revenue from these industries or activities:
 - Controversial weapons (complete ban), Nuclear weapons, Conventional weapons, Thermal coal and Tobacco production.

Good governance

We assess companies' governance before investing and review governance continually for all companies held. We use data from MSCI and ISS to complement our own research, covering four areas:

The Fund is categorised an Article 8 under the EU Regulation 2019/2088 on sustainability related disclosures in the financial services sector (SFDR) and promote environmental or social characteristics as an objective.

The decision to invest should also take into account all the characteristics or objectives described in its prospectus. The fund's sustainability related disclosures can be found on our website columbiathreadneedle.com



Principal adverse impacts (PAIs)

All companies have an impact on the environment and/or society, both good and bad. We consider the "principal adverse impacts" of our investments. We do this through exclusions, investment research and engagement with companies.



Environmental indicators

- 1.1 Greenhouse gas emissions
- 1.2 Carbon footprint
- 1.3 Greenhouse gas intensity
- 1.4 Exposure to fossil fuels
- 1.5 Non-renewable energy consumption and production
- 1.6 Energy consumption intensity per high impact climate sector
- 1.7 Activities negatively affecting biodiversity sensitive areas



Social & Governance indicators

- 1.10 Violations of international standards and principles
- 1.14 Exposure to controversial weapons
- 3.7 Incidents of discrimination

Net zero emissions

As a member of the Net Zero Asset Managers Initiative, the Fund has committed to an ambition to reach net zero emissions by 2050 or sooner. Our focus is on real-world change, using stewardship to encourage companies to align to a net zero future.



Company assessment

- > We rate companies on their alignment to a net zero pathway
- > We aim for companies representing >70% of portfolio emissions either aligned to net zero, or under engagement



Net zero stewardship

- > We engage with laggard or high-impact companies on climate objectives
- > We sell when minimum expectations are not met



Portfolio assessment

- > We compare a fund's carbon emissions with net zero-aligned trajectory
- > Use the benchmark's 2019 emissions and apply a 50% reduction by 2030
- > Reference the pathway to track progress, not a binding target



Coal exclusion

- > Companies with >30% revenues from coal or investing in new coal infrastructure

More information on our net zero methodology can be found [here](#).

Engagement

We believe in the power of active ownership. Our aim is to reduce risk, enhance long-term performance and encourage a positive contribution to environmental, social and governance issues



We use constructive, confidential dialogue, typically working one-to-one with companies, but taking a collaborative approach where this has more impact



A deep understanding of how ESG issues impact mainstream business strategy



The building of long-term relationships with companies



Local knowledge and context



Access to senior management and board

To find out more, visit columbiathreadneedle.com



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