

Threadneedle UK Sustainable Equity Fund

Annual Outcomes report 2020/21



Fund Objective

The Fund aims to achieve a return over the long term, consisting of both investment growth and some income, achieved through investment in companies that are positively exposed to sustainable themes through their products and services, as well as focusing on those with strong or improving environmental, social and governance (ESG) characteristics. The Fund focuses on selecting companies delivering sustainable outcomes or progressing towards the delivery of sustainable outcomes, as outlined in the Fund's Sustainable Investment Guidelines. The Fund is actively managed and invests at least 75% of its assets in shares of companies domiciled in the UK, or which have significant UK business operations. The Fund may also invest in other assets such as cash and deposits, and hold other funds (including funds managed by Columbia Threadneedle companies) when deemed appropriate.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested. The Fund has a concentrated portfolio (holds a small number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the Fund's value. The Fund may invest in derivatives with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the Fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the Fund.

CONTENTS

Introduction	4
Exposure to themes.	5
Delivering positive outcomes.	6
Our investment process.	8
Case studies	10
Performance and positioning summary	14

INTRODUCTION

Delivering positive sustainable outcomes

In our transforming world, investing sustainably is key to creating a better future and to delivering investment returns.

The Covid-19 pandemic has accelerated a trend that has been evident for a while: the rise of environmental, social and governance (ESG) analysis and sustainable investing. Greater awareness for the environment, social factors in the workforce and supply chain and the desire to become more responsible custodians has shifted the narrative of what the true goal of investing should be.

The Threadneedle UK Sustainable Equity Fund has a dual objective to generate long-term performance that exceeds the FTSE All-Share index and to invest in companies with positive sustainable outcomes. The aim is to identify companies whose products and services have a demonstrable positive impact on the environment or society, measured through revenue alignment with the United Nations Sustainable Development Goals (SDGs).

To assess this, active engagement is key. We meet CEOs and CFOs during results roadshows, but also chairmen, other board members and heads of sustainability to assess thoroughly companies' fundamentals, financials, ESG risk management and, crucially, sustainability. This results in a well-balanced, diversified portfolio with a smaller carbon footprint than the index and 100% of holdings contributing to achieving the SDGs.

The Fund has maintained its outperformance since inception and outperformed the index over the past year, benefitting from defensive positioning and a continued focus on quality, which worked well in the year's uncertain and volatile markets. We have kept in close contact with our investments throughout, and increased exposure to companies that were trading on attractive valuations. As we moved into 2021, we increased exposure to quality cyclicals and companies positioned to take market share and grow as we come out of the pandemic.

As we emerge, the Fund positioning and philosophy mean it is well-placed to benefit from structural trends, accelerated by Covid-19:

- There has been an acceleration of net zero carbon-emission targets from governments around the world, including China by 2060 and the US by 2050. Later in 2021, the UK will be the focus of the world, when Glasgow hosts the 26th United Nations Climate Change conference, where the focus will be on increasing the pace of global decarbonisation, with implications for all sectors.
- People in lower income communities were disproportionately affected by the pandemic. The increase in focus of the 'S' in ESG means addressing social inequality is a key part of economic recovery programmes through, for example, improving access to education, financial services and technology.
- The importance of innovative healthcare companies and strong healthcare systems has been highlighted by the pandemic, as has the need for encouraging healthier habits and lifestyles, especially with ageing populations. Governments worldwide will increasingly focus on public health programmes such as obesity reduction strategies, including healthier eating and encouraging exercise.

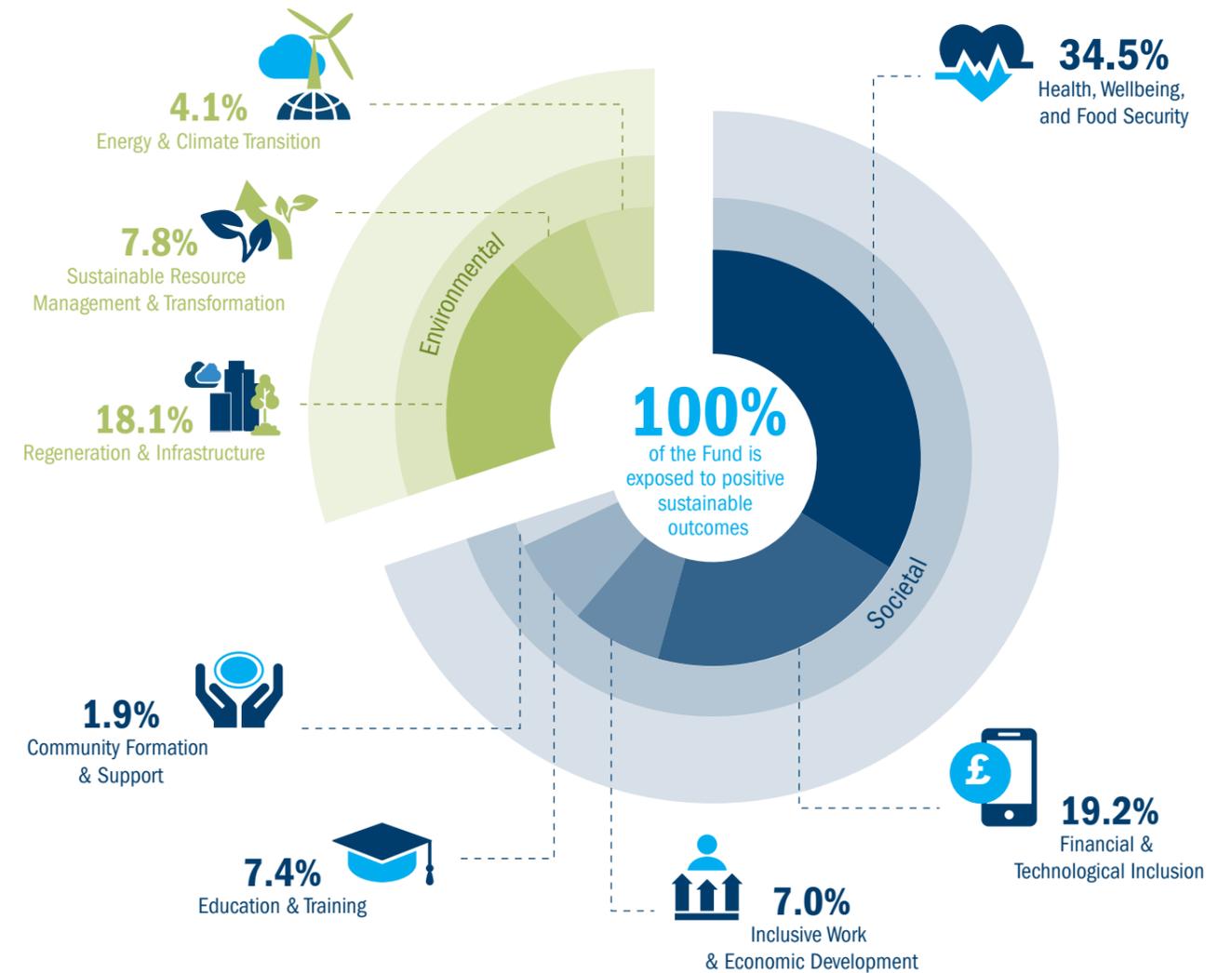
We continue to see value in the wider UK equity market. There are many sustainable global leaders in the index, which we believe is trading at too wide a discount compared to other international indices. This is despite 77% of the FTSE All-Share's earnings coming from outside the UK.

The Fund has a mix of companies, from mega cap corporations where sustainability bolsters their competitive advantage, those transitioning to more sustainable strategies, to smaller, growing companies with strong intellectual property but which may be under-the radar in terms of their sustainable outcomes.

What all our portfolio companies have in common is a positive sustainable outcome: companies in the Fund reduce carbon emissions, boost biodiversity, improve health and hygiene, reduce the digital skills gap, and innovate to hasten the energy transition and positively impact lives around the world.

EXPOSURE TO THEMES

The Threadneedle UK Sustainable Equity Fund invests in companies whose products and services have a positive impact on the environment and society across eight sustainable themes, aligning with the 17 UN Sustainable Development Goals.



DELIVERING POSITIVE OUTCOMES

Investing in companies whose products and services have a positive impact on the environment and society.

21 extra care schemes for older people

Care services in over **10,000** homes¹

Launched free-to-access Covid-19 **Healthcare Hub²**

56.2M reached through Knowledge and Wellness material³

>75% market share of cable protection systems for European offshore wind industry⁴

Batteries for med tech, consumer electronics, industrial sensors and electric vehicles⁵

Helped **2.8M** people improve digital skills since 2014/15⁶

£12B of new climate and sustainable financing and funding⁷

Insurance solutions to close the protection gap in **13** Asian and **8** African countries⁸

\$4.7M worth of medical technology donated to underserved communities⁹

Donated the equivalent of more than **2M** meals during the pandemic¹⁰

Over **10M** patients using products with specialist inhalation IP across 10 disease areas¹¹

1,341 graduates hired, **44%** of whom were the first in their family to go to university¹²

Automation software helped **19,000** care home residents set up mail accounts¹³

Completion of **net zero** and **all-electric** building on Charlotte Street, London¹⁴

Energy savings from insulation products equivalent to **110M** barrels of oil¹⁵

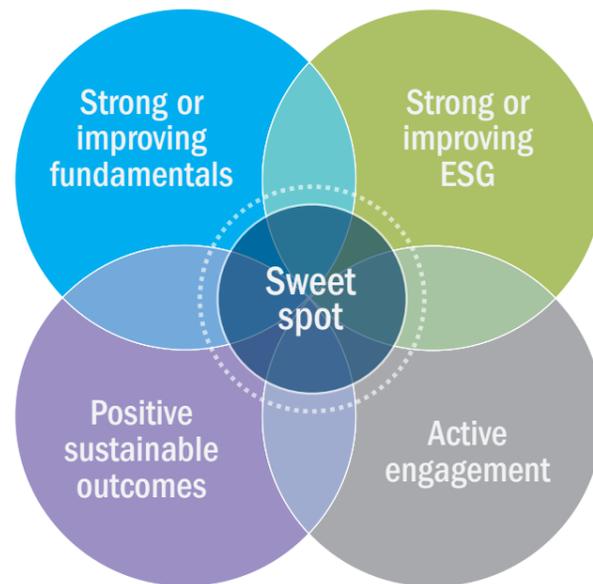
5.5M tonnes of waste recycled and recovered and water supplier for **2.2M** people¹⁶

OUR INVESTMENT PROCESS

Our tried and tested UK equity investment process is enhanced with a focus on positive outcomes



Identify positive contributors and exclude companies with inherently negative outcomes



40-60 companies with



Positive sustainable outcomes



Better ESG risk management practices



A smaller carbon footprint



CASE STUDIES



Rentokil Initial

6 CLEAN WATER AND SANITATION

Inclusive Work and Economic Development

Sustainable Outcomes Rating

Leader

Rentokil's three divisions – Pest Control, Hygiene and Protect and Enhance – each have positive outcomes. The company's operations result in health improvements, reduced repair costs and reputation risks, better hygiene from cleaning and disinfection services, and enhanced property care and workplace safety.

Around 87% of Rentokil's revenues make workplaces and homes healthier, more hygienic and safer. The company's c.40,000 employees work across 83 countries covering 90 of the world's top 100 cities. In 2020, for understandable reasons, the company's disinfection services saw large growth. In recent years, there has been a focus on mosquito and vector control as a source of organic and inorganic growth. Product development focuses on chemical safety, with non-toxic products making up 80% of the innovation pipeline.

This means Rentokil aligns primarily with our Inclusive Work and Economic Development theme, where positive outcomes create safe, inclusive work environments around the world. There is also a link to our Health, Wellbeing and Food Security theme.

We have been a long-term shareholder and regularly meet management and board members. Executive pay is linked to ESG measures and long-term, 10-year ESG/sustainability targets are being developed.

Sustainable outcome | Improving public health in 83 countries through hygiene and pest control services, including new Covid-19 disinfection services.



rb

3 GOOD HEALTH AND WELL-BEING

Health, Wellbeing, and Food Security

Sustainable Outcomes Rating

Leader

During the year, RB restructured its three reporting divisions: health, hygiene and nutrition. In recent years, there has been significant change at senior management and board level and the company is now embracing its size and scope to drive sustainability from the group level, effect change and benefit from consumer interest in sustainable products.

Currently, there is a big focus on how RB products are made, with reductions in energy and water, and more recycled components. The new central function allows best practices to be shared across the company.

RB works alongside governments and public health bodies to educate people on areas such as cleanliness, nutrition and sexual health – this is on top of the positive impact of its products, well-known brands such as Durex, Finish, Dettol and Nurofen.

RB clearly aligns with our Health, Wellbeing and Food Security theme. Additionally, its recent inorganic growth shows the intention behind its sustainability strategy, investing \$30m in Healthy by Your MD, a medically approved self-care app, in October 2020, and \$40m (in addition to an earlier investment of \$180m) in Pharmapacks, which offers health and wellness products, in September 2020. 1% of the group's adjusted operating profit also goes to its Reckitt Fight for Access fund, improving global access to health and hygiene products and knowledge.

We opened our position in May 2019 and, since then, have met the CEO, CFO, chair, non-executive director in charge of executive pay and the company's head of sustainability. Engaging is crucial to understand RB's changing strategy and how ESG and sustainability is fundamental to the equity story.

457m people informed through health and hygiene messaging and campaigns. | **Sustainable outcome**



MARLOWE
P L C

3 GOOD HEALTH AND WELL-BEING



Inclusive Work and Economic Development

Sustainable Outcomes Rating

Leader

Marlowe provides specialist services for ensuring regulatory compliance. Its business lines provide water treatment services, fire safety and security, health and safety management systems, occupational health and employment law services. There is strong positive alignment with multiple themes and SDGs.

Marlowe is the biggest UK player within water treatment. This involves inspecting water systems, monitoring usage, ensuring wastewater is clean and minimising the environmental impact of its clients. This division also includes asbestos monitoring.

In 2021, we met the company's senior management to discuss strategy, ESG and sustainability. We were impressed by how material risks are mitigated and how the company is positioned for sustainable opportunities. Management believes Marlowe will be a beneficiary of not only increasing regulation and enforcement but increasing awareness of the importance of health and safety. It sees an opportunity as the market consolidates and building requirements mean cross-selling can increase. The company is also exploring new business areas such as environmental consulting and compliance.

Sustainable outcome | Health and safety, fire safety, security, water treatment and hygiene, air testing and quality and environmental services to 20% of Britain's commercial premises.



COATS

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Sustainable Resource Management and Transformation

Sustainable Outcomes Rating

Contributor

Coats makes thread for use in apparel and footwear, where the company works with c30,000 manufacturers and c4,000 retailers and brands. Beyond apparel, Coats' thread is used in various industrial applications, including subsea cables, seatbelts and personal protective equipment.

As a market leader in a fragmented industry, Coats is pushing to make positive changes and it has ambitious targets to reduce the water and energy it uses in a resource-intensive manufacturing process.

The company's flagship sustainable product is EcoVerde, a thread made from fully recycled polyester, so using no virgin plastics. The range has expanded, and sales increased from 2% of all premium polyester sales to 13% in 2020. A 2024 target has been set that 100% of premium products will be made from recycled materials.

We think Coats is well-placed as a market leader in a fragmented industry that stands to benefit from consumers who want more sustainable clothing and are increasingly demanding that of retailers and brands.

We met its head of sustainability recently to understand the full picture of its non-financial risks and in particular its upstream impact. Coats also has a target to have external social certifications (eg, Great Place to Work) across its key manufacturing sites. This is notable given the company's footprint in emerging markets.

Manufacturer of the first 100% recycled thread. | **Sustainable outcome**

PERFORMANCE AND POSITIONING SUMMARY

Portfolio Start Date 30 October 2015



Sonal Sagar
Portfolio Manager



James Thorne
Portfolio Manager



Michael Hamblett
Analyst
Responsible Investment

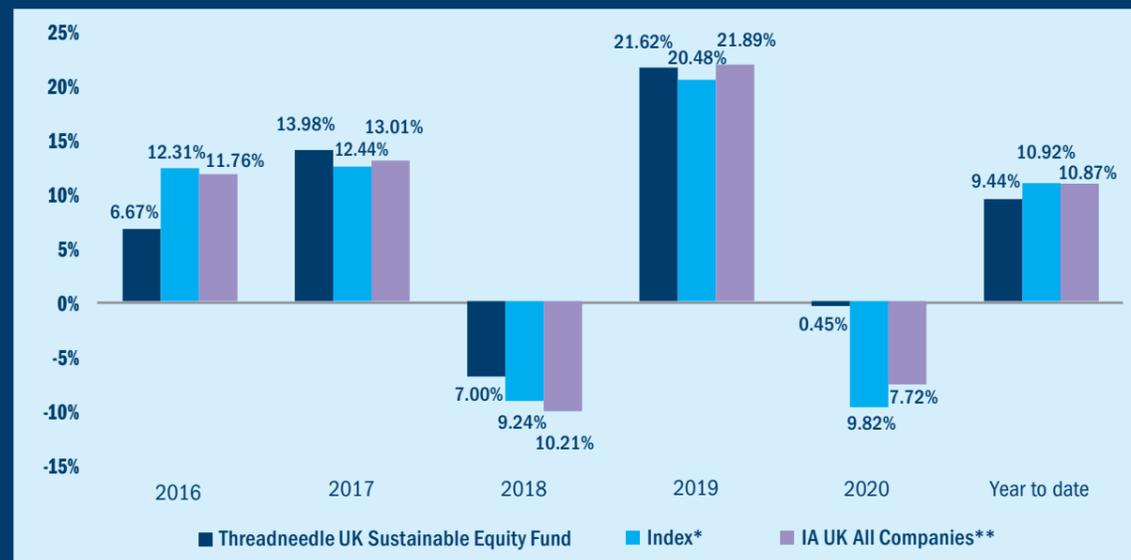
70% of the fund exposed to positive societal outcomes

30% of the fund exposed to positive environmental outcomes

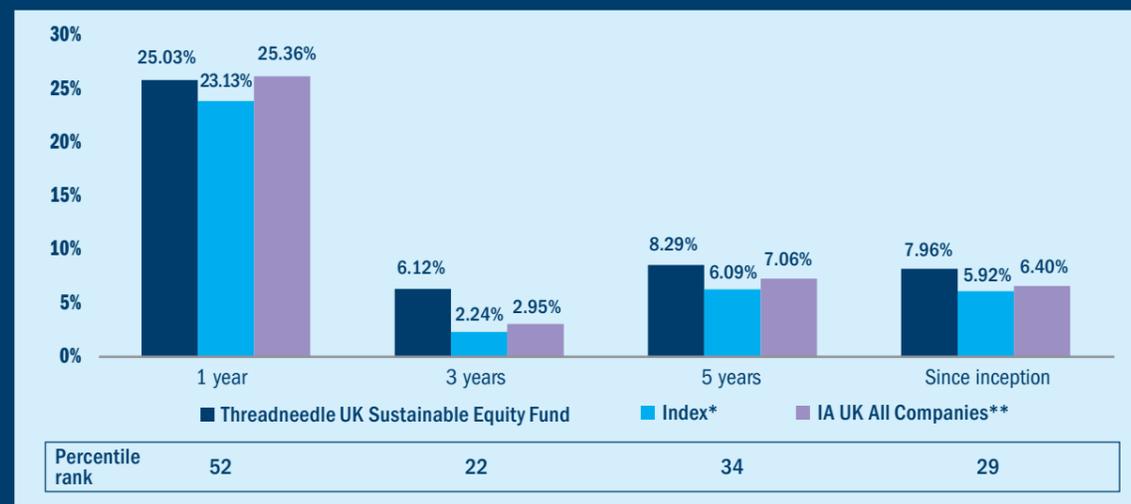
Total carbon emissions **85%** less than benchmark

Carbon intensity **72%** smaller than benchmark

Calendar Year Performance | Net fund performance vs. benchmark and peer group median



Annualised performance | Net fund performance vs. benchmark and peer group median



Source: Columbia Threadneedle Investments and Morningstar, as at 31 May 2021. Data quoted in GBP and annualised. Calendar year data quoted in GBP. Fund data is quoted on a bid to bid basis. Net performance based on 12pm prices, unadjusted income reinvested. Fund returns based on official NAV performance and net of fees of the primary share class (GB00BZ21SS97) and include reinvested unadjusted income. *The index is a Composite benchmark. On July 2019, the Fund changed its name and the benchmark changed from the MSCI UK IMI Extended SRI to the FTSE All Share. Past performance is not a guide to future performance. **This Fund is classified in the IA UK All Companies peer group. Inception date is 31 October 2015.



Fees

Z Acc GBP share class
AMC: **0.75bps** OCF: **0.92bps**

Institutional Acc GBP share class
AMC: **0.60bps** OCF: **0.70bps**



Index split

FTSE100 **70%**
FTSE250 **16%**
SMALL Cap **12%**

AuM*
£133m



Holdings

Number of holdings
54



*As at 31 May 2021.

The fund characteristics described above are internal guidelines (rather than limits and controls). They do not form part of the fund's objective and policy and are subject to change without notice in the future. Source: Columbia Threadneedle Investments as at end March 2021. Carbon footprint data benchmark FTSE All Share.

To find out more visit
columbiathreadneedle.co.uk/uk-sustainable

DATA SOURCES FOR POSITIVE OUTCOMES ON PAGES 6-7

- ¹ <https://www.mearsgroup.co.uk/financial-reports/mears-group-plc-annual-report-and-accounts-2019>
- ² <https://www.relx.com/corporate-responsibility/being-a-responsible-business/unique-contributions>
- ³ <https://investor.futureplc.com/wp-content/uploads/2020/12/AR2020-FINAL.pdf>
- ⁴ <https://investors.tekmar.co.uk/app/uploads/2020/08/TGP-Annual-Report-FY20.pdf>
- ⁵ <https://www.ilika.com/images/uploads/general/Annual-Report-2020.pdf>
- ⁶ <https://www.bt.com/bt-plc/assets/documents/digital-impact-and-sustainability/our-report/report-archive/2020/2020-dis-report.pdf>
- ⁷ https://www.natwestgroup.com/content/dam/natwestgroup_com/natwestgroup/pdf/nwg-esg-report-mar-2021.pdf
- ⁸ https://www.prudentialplc.com/~/_/media/Files/P/Prudential-V3/reports/2020/esg-report-2020.pdf
- ⁹ https://www.smith-nephew.com/global/assets/pdf/corporate/smith_nephew_sustainability_report_2020.pdf
- ¹⁰ https://www.compass-group.com/content/dam/compass-group/corporate/sustainability/updates/Compass_sustainability_report_2020.pdf
- ¹¹ <https://www.vectura.com/wp-content/uploads/2021/04/Vectura-Group-plc-Annual-Report-and-Accounts-2020.pdf>
- ¹² <https://www.fdmgroup.com/wp-content/uploads/FDM-Annual-Report-2020c.pdf>
- ¹³ <https://investors.blueprism.com/sites/blueprism-ir/files/Annual%20Report/annual-report-2020.pdf>
- ¹⁴ <https://www.derwentlondon.com/responsibility/environmental/net-zero>
- ¹⁵ <https://www.kingspan.com/group/about/sustainability>
- ¹⁶ https://www.pennon-group.co.uk/system/files/uploads/financialdocs/Pennon_Annual_Report_2020.pdf



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