RESPONSIBLE INVESTMENT QUARTERLY

Q1 2020

COLUMBIA THREADNEEDLE INVESTMENTS

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Stewardship in action

01 Foreword

Iain Richards
Head of Responsible Investment

Back in 1964 the German writer and historian Leopold Schwarzschild posed the question "What price freedom?" in an analysis of what is required from society in support of a more socialist political agenda. At the heart of the article, Schwarzschild remarked in particular the extent to which individual civil liberties must necessarily be brought into conflict with delivery of the wider interest. The question left hanging was, how much of a discrepancy in expectations and policy might society be willing to bear under the circumstances?

While the measures that governments around the world are now implementing in response to the coronavirus outbreak appear to be having a positive impact in terms of controlling and slowing the global spread, the wider ramifications of the decisions that have been, and which continue to be, made will be serious and deeply felt. Urging society itself to become "less social" by curtailing freedom of movement – both now and for the foreseeable future in many parts of the world – means that those with capital to deploy have necessarily been frustrated in their ability to support the solutions required in order firstly to mitigate and secondly, hopefully, to overcome the virus.

Politicians are keen to convey the message that we are all in this together, and create an impression that society consensually accepts that social distancing is in its best interests (ie, that both citizens and markets remain conceptually "free" because the actions they are taking in response to the outbreak are not being imposed upon them), but the long-term impacts of this strategy remain poorly understood. Many businesses remain desperate for financing, despite efforts to support them through government-backed emergency credit lines. Should they go to the wall, they and the employment they generate may not be easily replaced – the impact of which will be to prolong the recovery cycle.

Global supply lines are yet to be fully tested with the virus having only a relative toehold in Africa at the time of writing. With agriculture under severe pressure in the region as a result of successive locust plagues in the past couple of months, we may not yet have seen the worst of the bad news for 2020 on the humanitarian front.

The fact we have seen such a spike in fixed income capital allocation through this period, specifically to finance the delivery of products and services to ameliorate the impact of the coronavirus, is very welcome. At typically four-times oversubscribed, the desire on the part of investors to actively support the delivery of solutions to the problems created by coronavirus appears clear. I take this as indicating that sustainability remains an active consideration for many, even if there are now early signs of oversupply, which of course creates its own problems.

As well as this, much is being made in some quarters of the apparently superior performance of environmental, social and governance (ESG) funds through the global downturn;[1] this is not entirely unexpected given the quality and sector bias inherent in ESG strategies which focus on risk management and standards of operating practice. It really would be something if these strategies can continue to outperform as global markets and commodity prices recover. Time makes fools of us all.

Meanwhile, the asset management industry remains under significant pressure to reduce fees; as ever, getting the most out of the resources available as the world around us evolves and demand for RI insight increases remains a core priority. Maintaining focus on the enduring material ESG risks facing the businesses in which we invest remains a vital component of our work as a long-term active investor. Assessing performance against relevant and measurable metrics cannot be achieved unless disclosures are of a high enough quality and provide sufficient breadth.

To help underpin our global RI capability, and position our business for the future, we have therefore taken the decision to create distinct pools of research and stewardship personnel, as well as a Strategy and Implementation unit. The research being generated remains focussed on sustainability but is being redesigned to ensure broader resonance across sectors, complementing the research provided by our existing bank of sector analysts. Meanwhile, stewardship activities are under new oversight, but continue to support risk discovery at the company level, the promotion of best practice specific to context, and the use of voting rights (as appropriate), as well as contribute to better functioning markets.

The unit has responsibility for ensuring that our business continues to respond effectively to legislation/regulation, and that the insight being delivered by analysts evolves to consistently support investment processes. By creating this separation of functions, we not only hope to catalyse a broader range of conversations within our analyst community on RI issues, but also ensure the work we do has greatest impact. I am confident this will ensure the investment solutions we offer as a firm remain in close alignment with the wider interests of our clients.

Source:
1 Blackrock, Sustainable investing: Resilience amid uncertainty, 18 May 2020.

02 Portfolio Manager Viewpoint

Benjamin Kelly
Senior Analyst,
Responsible Investment

Simon Bond
Director of Responsible Investment
Portfolio Management

The coronavirus is a social issue that has brought unprecedented disruption to societies and is impacting the wellbeing of the world's population. Capital markets are responding to this challenge with more than $9 billion of social bonds issued in just a three-week period, all from supranational entities. However, more can be done, and this presents a great opportunity for governments to follow suit.

When considering environmental, social and governance (ESG) investments, social attributes are often overlooked for the more salient environmental and governance characteristics. A contributory factor for this can stem from environmental and governance aspects of a company being easier to assess, ie, we can measure carbon emissions from aircraft or board diversity relatively easily. Social has been a bit more challenging in that regard. For example, job creation is important and paramount to invigorating an economy, but we need to understand the quality of jobs being provided in terms of how workers are treated and compensated. However, we may be entering a period where social investing comes to the fore.

Gauging investor interest

The bond markets have traditionally been a great barometer of investor interest in ESG-related activities through the issuance of green, social and sustainability bonds. These are defined as "specific use-of-proceeds" bonds, which means the financing is exclusively channelled to pre-identified projects where the outcome will be green, social or sustainable (a mixture of green and social). This area has grown rapidly in recent years, with the amount of issuance nudging over $800 billion (Figure 1).

Unsurprisingly, green bonds have dominated this landscape, ie issuers have focused on bonds where the use of capital is directed towards environmental projects. Social issues amount to more than $56 billion, catalysed by the International Capital Market Association (ICMA), to support the financing of projects aimed at addressing the Covid-19 threat.

In fact, the supranational community is already allocating capital to tackle Covid-19 with more than $9 billion of debt issued in the past three weeks,[2] through the IFC Social Bond; the IADB Sustainability Bond; the African Development Bank Social Bond; the Nordic Investment Bank Response Bond; and the two most recent, the European Investment Bank and the Council of Europe Development Bank, which were both €1 billion issues and were 5.9 and 3.9 times oversubscribed respectively. In aggregate, these bonds will support products and services contributing to health conditions and maintaining living standards for communities impacted by the Covid-19 virus.

These issues fall within the ICMA Green and Social Bond Principles and target healthcare, access to finance for small businesses, employment and longer-term green infrastructure projects among other specific use-of-proceeds (Figure 2).

Figure 1: Green, social and sustainability bond issuance (as at 2 April 2020)

$ Billions	Green	Sustainability	Social	Total
2019 issuance	220.6	47.7	17.3	285.5
2020 YTD issuance	41.2	15.3	12.0	68.5
Amount outstanding	649.5	97.6	56.7	801.8

Source: Bloomberg and Columbia Threadneedle Investments, 2 April 2020.

Figure 2: Covid-19 specific use-of-proceeds issuance (as at 2 April 2020)

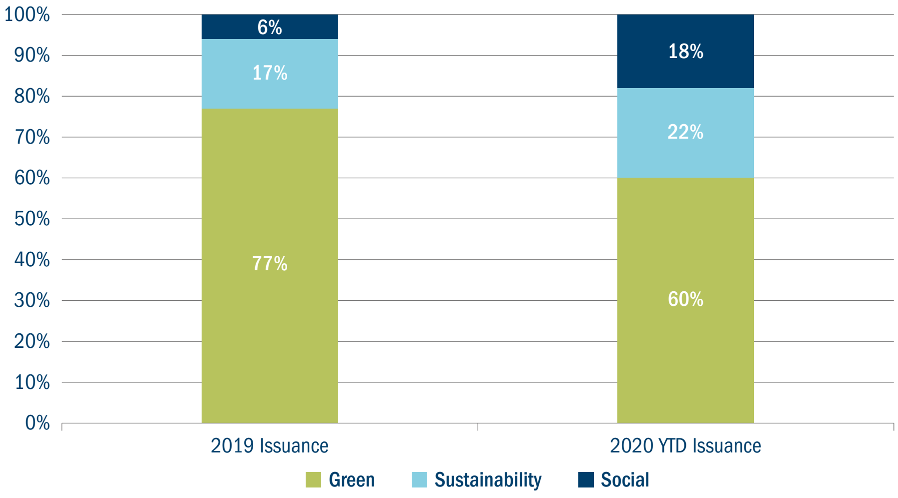
Issuer	Type of bond	Use of proceeds
IFC	Social	The World Bank Group, of which IFC is a constituent, will help developing countries strengthen health systems, including better access to services to safeguard people from the epidemic, strengthen disease surveillance, bolster public health interventions, and work with the private sector to reduce the impact on economies.
Inter-American Development Bank (IADB)	Sustainability	The IADB is offering up to $2 billion in resources for countries requesting support for disease monitoring, testing and public health services, as part of its coordinated efforts to fight the Covid-19 outbreak.
African Development Bank (AFDB)	Social	Proceeds will be allocated in line with the AFDB's Social Bond program, to provide support and financing to countries and businesses fighting Covid-19.
Nordic Investment Bank	Covid-19 response bond	Loans will support the provision of products and services contributing to health conditions and maintaining living standard for groups challenged by Covid-19. More specifically, they will target the financing of impacted small and medium-sized enterprises and the financing of large companies in the medical equipment and healthcare sector facing increased demand for equipment or services.
European Investment Bank (EIB)	Sustainability	Lending to health projects substantially contributing to universal access to affordable health services (SDG 3). SAB-eligibilities are being extended to additional areas of the EIB's financing directly related to the fight against Covid-19, in line with a national/international health emergency response or preparedness plan. These include support to national health authorities, hospitals, laboratory facilities and networks.
Council of Europe Development Bank	Social	Support for health infrastructure to cover the acquisition, under emergency procedures, of medical equipment and consumable material; the rehabilitation and transformation of spaces, medical units; and the mobilisation of additional expertise. Also, support for SMEs and municipal companies with a focus on the preservation of jobs and on enabling ongoing municipal investments.

Source: Issuers New Deal Presentations, 2020.
The securities listed are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable.

The current crisis, however, has added impetus to widen the scope from green bonds to social and sustainability bonds as well. For example, IFC has been issuing social bonds since 2017 raising $1.46 billion across 28 bonds as at 31 December 2019.[3] Its latest social bond is a $1 billion issue, thus almost doubling its social bond book in one fell swoop. This trend is broadly reflected when we look at the global issuance of specific use-of-proceeds bonds. Social represents 18% of these year-to-date, which is an unprecedented proportion, and it is thought that this trend will continue as we move through and out of the pandemic (Figure 3).

Psychologically, investors are typically monothematic, ie we can only concentrate on one big idea at a time. Previously this was climate change, and while it is still, of course, of paramount importance, it is taking a back seat as investors focus on the immediate Covid-19 crisis. While we expect there will be greater issuance in social bonds to tackle this health crisis, post-Covid-19 climate change will likely resume its role as the key ESG theme, although social will remain prominent in people's minds.

Figure 3: Allocation of green, sustainability and social issuance in 2019 and year-to-date 2020



Source: Bloomberg, 2 April 2020.

A sweet spot for government issuance

This presents an opportunity for governments to follow in the footsteps of the supranationals and issue sovereign bonds in response to this crisis. Sovereigns issuing specific use-of-proceeds bonds is not a new idea: a number of countries have done so in the past three years, including the Netherlands, France, Ireland and Belgium (all of which were green bonds).

An interesting pattern from the sovereign issues is that UK investors are consistently one of the largest purchasers. For example, with the recent Council of Europe Social Bond they represented 14% of purchasers (behind only France at 25% and Asia at 16%).[4] However, despite the domestic investor appetite the UK has yet to issue a gilt of this nature. Our view is that the current crisis has created a sweet spot for a social Gilt which not only supports the immediate crisis but tackles longer-term social challenges.

Environment or social?

An interesting question will arise if we start to see evidence of social characteristics superseding environmental aspects when considering investments. Air travel and shipping are two areas where the social aspects are often overlooked due to the negative environmental aspects (carbon emissions of the transportation), but aviation and shipping are inherently highly social.

Similarly, we are starting to see companies focus on the social side of business in the fight against Covid-19. The crisis is placing a spotlight on a firm's social policies towards key stakeholders including employees, suppliers and customers. Examples of this include the likes of Uber and Lyft partnering with hospitals, local governments and non-profits to fund free rides for key workers – from grocery store staff working additional late-night shifts to food bank customers coming from areas with food insecurity.

In conclusion, Covid-19 has heralded unprecedented times for communities across the world. The delivery of social bonds to alleviate this pandemic is welcome, but further issuance is required and is an invitation for governments to step-up and structure social bonds. We expect to see further behavioural shifts from corporates towards social outcomes when we exit this crisis and believe social investing is here to stay.

Source:
2 Bloomberg, March 2020.
3 https://www.ifc.org/wps/wcm/connect/2be3dc0e-ec8e-40ce-8f71-3d8cafe25a59/2_IFC_Factsheet_SocialBond_02122019.pdf?MOD=AJPERES&CVID=mXsodH5
4 CEB, CEB issues social inclusion bond in response to COVID-19 pandemic, 8 April 2020.

03 Country Head Focus – Nordics

Ulrik Oxfeldt
Head of Nordics

The Nordics: responsible investment spotlight

Many firsts in green finance emanate from the Nordics. Helped by a large number of repeat issuers of green bonds, the region continues to innovate.

The Nordic region was an early pioneer of green bonds. It was the World Bank, in conjunction with Swedish financial services group SEB (Skandinaviska Enskilda Banken), which launched the first green bond back in 2008 following demand for climate-related investments from a group of Swedish pension funds.[5]

Other Nordic issuers were quick to follow suit. In 2010, state-owned municipality financing bank KBN Kommunalbanken of Norway and the Nordic Investment Bank issued green bonds, and in 2013 Vasakronan, a Swedish housing business, became the first company in the world to launch a green bond. Another first was achieved the same year when the City of Gothenburg became the first global city to issue a green bond.

Many other cities in the Nordic region such as Oslo and Stockholm have followed in Gothenburg's footsteps, using the money raised to finance eco-friendly initiatives such as low carbon transport and energy management programmes. This has helped underpin their green credentials with Nordic cities frequent winners of the European Green Capital Award.[6]

Nordic nations punch above their weight

Today, Nordic countries rank among the world's largest issuers of green bonds. Despite their relatively small economies, Sweden and Finland ranked in the top 15 countries for green bond issuance in 2019, according to the Climate Bonds Initiative (CBI), with Sweden positioned ahead of Japan, an economy around nine times its size.[7]

In 2019, the Nordic nations issued $16.3 billion of green bonds, accounting for 16% of the European green bond market, according to CBI data. The CBI puts the success of the Nordic green bond market down to "many small and many repeat issuers creating a big impact".[8]

Local government funding agencies, which issue bonds on behalf of numerous local authorities, have tended to dominate the green bonds market in the Nordics. But corporates and financials are significant issuers as well, and sovereign green bonds are set to play an important role. Sweden has announced that it intends to launch a green bond in 2020 while Denmark has been studying the possibility of issuing sovereign green bonds.[9]

Sweden's move would put it in line with Germany, which is planning its first green bond in the second half of 2020, but behind other EU countries such as France, the Netherlands and Belgium which have already issued sovereign green bonds.

Decades of climate action

The Nordic region has a long history of climate activity going back several decades. Denmark has one of the highest levels of wind power penetration in the world, while Norway and Sweden rank among the world's lowest CO_2 producing economies. Norway has also introduced significant incentives for buying electric vehicles such that, in 2017, more than half of new car sales were electric or hybrid.[10]

Initiatives such as these show no signs of abating. Compared to 1990 levels, Finland has committed to reduce its greenhouse gas emissions by at least 80% by 2050, and Norway by 40% by 2030. Sweden aims to have no net emissions of greenhouse gases by 2045.[11]

Public sector issuers drive change

Helping drive such change is a group of leading Nordic public sector issuers of green bonds which includes the City of Gothenburg, MuniFin of Finland, and Kommunalbanken of Norway. In February 2020 they published a revised version of their Position Paper on Green Bonds Impact Reporting.[12] The updated report outlined new stricter guidelines for green bonds such as a reduction in baseline CO_2 emissions for electricity projects from 380g/kWh to 315g/kWh.

The revised report comes ahead of the introduction of the EU Green Bond Standard, voluntary standards designed to enhance the transparency of the green bond market. The group of Nordic public sector issuers hope their wide-ranging recommendations will contribute to global harmonised reporting of the impact of green bond investments.

World leaders in ESG investing

When it comes to environmental, social and governance (ESG) investing, the Nordics have led the way. Notably, Norway's Government Pension Fund Global was among the first institutional investors to embrace sustainable investing.[13]

Even Norway's sovereign wealth fund, the world's largest, was given the green light by Norway's legislature last year to sell shares in coal and energy companies.[14] This was a highly symbolic move given that, over almost 25 years, the fund's assets have been built up from the sale of Norway's sizeable oil and gas reserves.

Going forward, Nordic green finance should carry on growing and innovating. Green loans and sustainability-linked loans, where the loan margin is linked to agreed environmental targets, have been growing globally and were used by Finnish companies, including Outokumpu, a world-leader in stainless steel, in 2019.[15] Equally, green bond markets should continue to thrive, helped in no small part by the region's many small and repeat issuers, but also by the planned sovereign issuance from Sweden.

Source:

5 From Evolution to Revolution: 10 years of Green Bonds, *The World Bank* https://www.worldbank.org/en/news/feature/2018/11/27/from-evolution-to-revolution-10-years-of-green-bonds
6 European Green Capital, Winning Cities, *European Commission.* https://ec.europa.eu/environment/europeangreencapital/winning-cities/
7 2019 Green Bond Market Summary, *Climate Bonds Initiative.* https://www.climatebonds.net/files/reports/2019_annual_highlights-final.pdf
8 Sweden's $8.3bn green bond issuance outstrips Nordic rivals, *Expert Investor* https://expertinvestoreurope.com/swedens-8-3bn-green-bond-issuance-outstrips-nordic-rivals/
9 Sweden's $8.3bn green bond issuance outstrips Nordic rivals, *Expert Investor* https://expertinvestoreurope.com/swedens-8-3bn-green-bond-issuance-outstrips-nordic-rivals/
10 Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting, January 2019 https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/NPSIPositionpaper2019final-120219.pdf
11 Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting, January 2019 https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/NPSIPositionpaper2019final-120219.pdf
12 Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting, February 2020 https://www.kuntarahoitus.fi/app/uploads/sites/2/2020/02/NPSI_Position_paper_2020_final.pdf
13 Sustainable Investing as the new normal, McKinsey&Co https://www.mckinsey.com/~/media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Our%20Insights/From%20why%20to%20why%20not%20Sustainable%20investing%20as%20the%20new%20normal/From-why-to-why-not-Sustainable-investing-as-the-new-normal.ashx
14 Norway and Japan show the conflicting approaches to ESG investment, *Financial Times* https://www.ft.com/content/d059656a-934b-11e9-b7ea-60e35ef678d2
15 Sustainable Finance: Full speed on green in first half of 2019, Danske Bank https://danskeci.com/ci/news-and-insights/archive/2019/sustainable-finance-full-speed-on-green-in-first-half-of-2019

04 Covid-19 and the climate: whither carbon pricing?

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After a long spell of low carbon prices within the EU Emissions Trading Scheme (ETS), times seemed to be changing over the past year, with carbon prices having become a material, near-term consideration for many investors and companies. This has particularly been the case for some industrial sectors in Europe.

Carbon taxes and pricing schemes have also become increasingly prominent globally within the past couple of years – at the start of 2020 pricing schemes were in place across 60 jurisdictions, including Canada, Mexico, China, Korea and a number of US states. Although the prices within most of these schemes are low, the general direction of travel seemed clear: an increase in the global take up and breadth of carbon tax and pricing schemes, along with increasing prices in some markets, particularly the EU.

However, as with most everything else these days, Covid-19 has introduced uncertainty. Within Europe, late March and April prices in the ETS have been highly volatile, falling from €25 to €15 at one point, but are now hovering around the €20 mark.[16] If there is a substantial recession will there be another prolonged lull in ETS carbon prices, as happened after the last financial crisis? While the pandemic and its implications are still unfolding, there are some indications that history may not repeat itself.

First, there is the issue of political will related to the EU ETS itself. Views on the efficacy of the scheme differ, with opinions varying as to its cost effectiveness and the extent to which it has directly brought about emissions reductions. However, in 2018 the European Commission provided a vote of confidence in the scheme by introducing a series of reforms to make it more robust. This included the introduction of the Market Stability Reserve, and the planned reduction in free carbon allowances from 2021. The announcement of these reforms correlated with the increase in prices witnessed over the past 18 months. Having strengthened the scheme to provide more of a price signal, it seems unlikely that the EU would allow another prolonged period with excess credits and carbon prices in the doldrums.

Alongside the prospects for the ETS scheme itself is the political backdrop relating to the EU policy and decarbonisation agenda. So far, while some aspects of the EU Green Deal are being postponed, the proposal to strengthen the 2030 emissions reduction target from a 40% to a 50%-55% reduction compared to 1990 levels seems to be staying on track. This appears to remain a priority for European Commission president Ursula von der Leyen. Furthermore, there are calls from several quarters for Covid-19 recovery and stimulus measures to be integrated within the EU Green Deal. If a strengthened 2030 emissions target is adopted, it seems likely that the EU ETS will remain one of the policy planks to achieve decarbonisation. This would suggest a return to higher carbon prices in the mid-term, alongside an economic recovery.

Globally, carbon pricing prospects post-Covid-19 remain unclear – there has been speculation that China's plan to formalise its emissions trading scheme in 2020 could be delayed, though there have been no announcements in this regard. On the other hand, at the start of April Canada proceeded with the planned annual increase in its federal carbon tax, from $20 a tonne to $30 a tonne, despite calls for the increase to be scrapped in view of the pandemic.

The near term

For now though, it seems that some European companies in the cement, steel and chemicals sectors may have a bit of a reprieve with an expectation of continued volatility and somewhat lower prices for ETS credits in the coming year. Lower prices should enable easier pass through of carbon costs where needed, reducing the impact on margins. This could provide an opportunity for companies to purchase credits in advance of 2021 when free allowances are expected to decline, or to invest in emissions reduction opportunities in anticipation of future price increases. More likely, though, is that some companies will opt to sell existing stocks of emissions allowances as a source of cash amid the downturn. Given the lack of transparency around how many ETS allowances are held by different companies, there is a need to engage with companies on their emissions reduction plans and priorities in the Covid-19 landscape.

Over the horizon

While there are short-term hurdles, mid-term questions and challenges also lurk. A significant increase in carbon prices, and wider take up globally, is still needed to drive technological development to help to achieve industrial decarbonisation. For example, prices in the range of $50-$150 a tonne of CO_2 are estimated to be needed to drive the development of different applications of green hydrogen across transport, heating and industrial applications. Prices in this range may now be a more distant prospect, in the context of the pandemic and economic recovery. Carbon Border Adjustments (ie, taxes) also remain a prerequisite to significant price hikes. The politics of introducing such taxes may be all the more daunting amid trade and economic disruption.

One key uncertainty, though, is the ultimate political fallout from the pandemic, and how this will impact political will relating to climate policy and regulatory interventions.
While it is too soon to speculate, some events over the next year will provide signposts. These include the scale and strength of countries' 2020 renewed Nationally Determined Contributions to meeting the Paris Agreement, and the outcome of the Green Deal and proposed strengthening of the EU 2030 Carbon target. We will continue to watch these developments with interest.

Source:
16 Carbon Market Watch, When COVID-19 met the EU ETS, 26 March 2020.

05 Dealing with our plastics waste

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Portfolio Manager,
Global Equities

We have a plastic problem. On a trip to visit my family in South Africa at Christmas, what struck me was that even on the most remote and protected marine coastline my children and I managed to fill bags with plastic straws and other plastic debris.
And the stats confirm we have a problem. Currently, only 14% of our annual plastic packaging produced is recycled, while only 2% is reused for the same or similar products. Instead, most of our plastic waste ends up in landfill or is leaked into our environment (around 12 million tonnes of plastic enter the oceans globally every year). The problem is only growing as urbanisation, population and income growth, particularly in emerging markets, lead to growing plastic packaging consumption.

In 2019, China joined the growing movement of more than 120 countries pledging to ban single-use plastics after its largest rubbish dump – the size of around 100 football fields – was filled 25 years ahead of schedule.
However, it is not only consumers and governments who are being pressured to deal with plastic waste.
To-date, corporates have held little to no responsibility for the waste they produce – their production has been linear, ie, they don't consider the end-of-life of their products.
But this is starting to change with growing pressure from consumers and regulators for production systems to become more circular. For example, consumer staples companies such as Coca-Cola are coming under increased pressure to deal with their contribution to plastic pollution.
A global audit of plastic waste by charity Break Free from Plastic found Coca-Cola to once again be the most polluting brand last year. It currently produces around three million tonnes of plastic packaging per annum, or roughly 200,000 bottles a minute.
The UN SDGs include targets to do "more and better with less". This means companies such as Coca-Cola need to overhaul entire supply chains – they must learn to reduce, redesign, reuse and recycle resources. By doing so we can keep waste production at more sustainable levels.

Some companies are already making plastic a priority, Adidas, in particular, has dedicated itself to solving the

Figure 4: Significant untapped potential to reuse good materials

Source: The new plastics economy, Ellen MacArthur foundation, 2017/www.ellenmacarthurfoundation.org plastic problem. In partnership with Parley, an environmental organisation that addresses environmental threats towards the oceans, they produced over 11,000,000 pairs of shoes from recycled plastic waste from beaches and coastal regions in 2019.[17] This figure is estimated to increase to between 15 – 20 million pairs in 2020. In addition, in 2020, over 50% of the polyester that Adidas uses will be from recycled sources for the first time.[18]

However, Adidas isn't just sourcing recycled materials, the business is busy working on making their own products recyclable. The launch of the 'Futurecraft Loop' is scheduled for 2021 which will be the first fully recyclable running shoe. It is made from a single recyclable material from sole to laces and is fused together without the need for glue.

Ultimately, shifting to more circular production also makes good business sense. By producing products that are fully recyclable and can be reused as inputs not only promotes a company's brand, but can also help lower production costs over the long term.

Source:

17 https://www.adidas-group.com/en/media/news-archive/press-releases/2019/adidas-to-produce-more-shoes-using-recycled-plastic-waste/

18 https://www.adidas-group.com/en/media/news-archive/press-releases/2020/adidas-uses-more-than-50-percent-recycled-polyester-in-its-products-in-2020-for-the-first-time/

Source: Ellen McArthur Foundation, www.ellenmacarthurfoundation.org/World Bank, December 2019.

STEWARDSHIP IN ACTION

Columbia Threadneedle Investments views an integrated, joined-up approach to stewardship as an integral part of its responsible approach to investment.

We vote actively at company meetings, applying our principles on a pragmatic basis. We view this as one of the most effective ways of signalling approval (or otherwise) of a company's governance, management, board and strategy. We classify a dissenting vote as being where a vote is cast against (or where we abstain/withhold from voting) a management-tabled proposal, or where we support a shareholder-tabled proposal not endorsed by management.

While analysing meeting agendas and making voting decisions, we use a range of research sources and consider various ESG issues, including companies' risk management practices and evidence of any controversies.

Our final vote decisions take account of, but are not determinatively informed by, research issued by proxy advisory organisations such as ISS, IVIS and Glass Lewis as well as MSCI ESG Research. Proxy voting is effected via ISS. Although we subscribe to proxy advisors' research, votes are determined under our own custom voting policy which is regularly updated. The RI team assesses the application of the policy and makes final voting decisions in collaboration with the firm's portfolio managers and analysts. Votes are cast identically across all mandates for which we have voting authority.

All our voting decisions are available for inspection on our website seven days after each company meeting.

We engaged with numerous issuers throughout the quarter. In prioritising our engagement work, we focus our efforts on the more material or contentious issues and the issuers in which we have large holdings – based on either monetary value or the percentage of outstanding shares.

There are many companies with which we have ongoing engagements, as well as a number that we speak to on a more ad hoc basis, as concerns or issues arise.

We actively participate in several investor networks, which complement our approach to engagement. Along with other investors, we raise market and issuer-specific environmental, social and governance issues, share insights and best practice.

We do not make use of third-party engagement services.

Throughout the quarter, engagements focused on COVID-19 became more and more prevalent. We will write further on this topic in Q2, but our approach to active stewardship has not changed with the exception of an increase in virtual meetings with companies.

Company meetings have focused on pertinent issues including resilience of operating models and balance sheets, workforce safety and management, and board oversight.

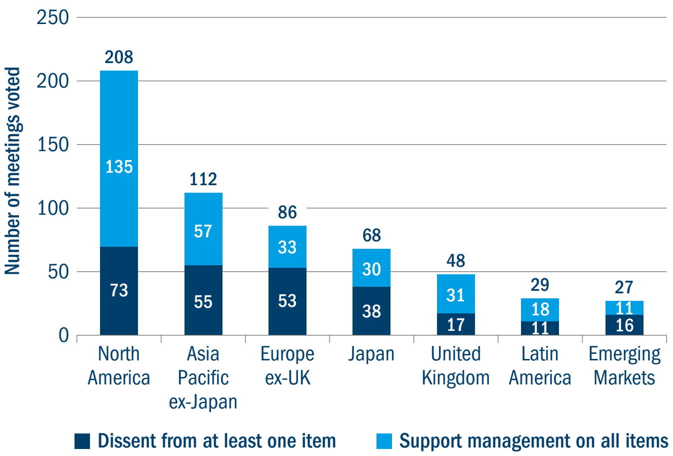
Our responsible investment engagement agenda remains unchanged: we will continue to engage with companies to better understand their management of financial and non-financial risks to generate long-term sustainable returns. How companies have responded to Covid-19 will continue to form part of our analysis.

06 Voting Q1

Between January and March 2020, we voted at 578 meetings across 45 global markets. This compares to 577 meetings voted across 39 global markets in the fourth quarter.

Of the 595 meetings, 427 were annual general meetings, 149 special, 7 Court, 5 Bond holder and 5 combined annual/special, 1 written consent and 1 Proxy Contest. We cast at least one dissenting vote at 283 (49%).

Figure 5: Meetings voted by region

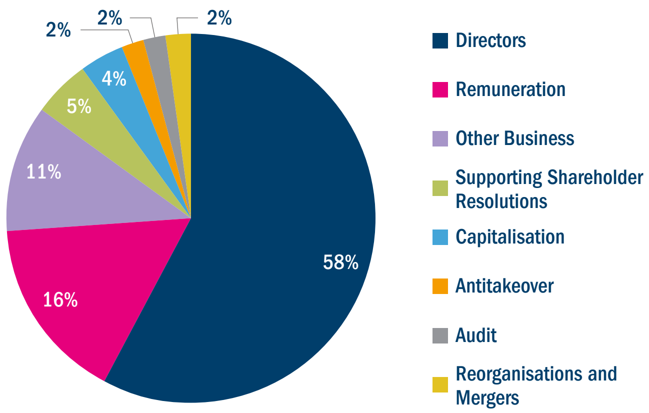


Source: Columbia Threadneedle Investments, ISS ProxyExchange, 31 March 2020.

We voted in 45 separate markets in the third quarter. Most meetings were voted in the US (201), followed by Japan (68), South Korea (55) and the UK (45).

The majority of the voting items that we did not support throughout the quarter were relating to directors followed by executive pay proposals.

Figure 6: Proportion of dissenting votes per category



Source: Columbia Threadneedle Investments, ISS ProxyExchange, 31 March 2020.

To find out more visit
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