



Governance and Responsible
Investment
Principles and procedures

Contents

Governance and Responsible Investment Philosophy	1
ESG Research Process	2
Proprietary Research	
Best in-class approach	
A variety of Inputs	
Controversial Weapons Policy	4
Company Dialogue, Engagement and Monitoring	5
Dialogue	
Engagement	
Monitoring	
Investment implications of integrated ESG research and engagement	6
Reporting and disclosure	7
Conflicts of interest	7

Threadneedle is a leading full service investment house. Founded in 1994, we manage €78 billion of assets for a wide range of clients including pension schemes, insurance companies, private investors, corporations, mutual funds and affiliate group companies. Managing our clients' assets is our only business.

This document sets out Threadneedle's Governance and Responsible Investment Principles and Procedures, incorporating our commitments to Corporate Governance and Sustainable and Responsible Investment (SRI). Throughout this document 'Threadneedle' refers to Threadneedle Asset Management Limited and Threadneedle International Limited. This document is reviewed and updated annually.

Governance & Responsible Investment Philosophy

We believe that well governed companies are better positioned to outperform over time. We are active investors committed to maximising our investment returns through the pursuit of good governance and responsible investment practices. This has influenced the overall investment process through the way we conduct research, and the method by which we invest, engage and monitor companies.

Sustainable and Responsible Investment (SRI) is embedded in Threadneedle’s investment approach. The process integrates environmental, social and governance (ESG) principles through research and engagement benefiting all funds and clients. We are increasingly tailoring our product offerings with specific SRI requirements for the growing number of investors who wish to see value added from ESG research. Our SRI principles have been developed internally and draw from international best practice, including the UN Principles for Responsible Investment (PRI), the UN Global Compact and the UK Stewardship Code.

Threadneedle’s Corporate Governance and SRI principles are applied globally across all equity funds and we have an ongoing commitment to expand into other asset classes. The management of ESG issues is a critical component of long-term value creation and we assess all of these elements in our analysis and engagement. We do not separate traditional ‘corporate governance’ and ‘sustainable and responsible investment analysis, although our specific criteria and procedures for proxy voting and good governance are set out in our Governance and Proxy Voting Policy (link).

We are members of several industry bodies (see below) and actively participate in current debates within the industry, promoting the principles of active ownership and responsible investment. We continuously monitor developments in terms of disclosure and we strive to follow best practice in terms of reporting. We disclose our procedures as we see in the best interest of our clients and other stakeholders.

Memberships	Signatories
United Nations Principles for Responsible Investment (UNPRI) founding supporters	UK Stewardship Code
European Social Investment Forum (EUROSIF)	Extractive Industries Transparency Initiative
UK Sustainable Finance & Investment Association	Carbon Disclosure Project
Asian Corporate Governance Association (ACGA)	Water Disclosure Initiative
Association for Responsible Investment in Asia (ASRIA)	Forest Footprint Disclosure Initiative
Association of British Insurers (ABI)	Emerging market disclosure initiative
International Corporate Governance Network (ICGN)	Global Compact CEO water mandate



Team

The Governance and Responsible Investment Team holds overall responsibility for monitoring company compliance with our principles and is drawn from our core team of analysts and fund managers. The team is located in the middle of the main Threadneedle investment floor. The team’s proximity to the investment managers allows for an easy natural interaction. It gives us the ability to filter the focus on the companies, themes and ideas under discussion. Our dedicated analysis is thus fully integrated within our mainstream investment process, ensuring a rounded view and a consistent message.

The Governance and Responsible Investment team is an integral part of the equity department and is fully supported by senior members of the equity team. The Governance and Responsible Investment team reports directly to the Head of Equities. The heads of regional equity departments are also actively involved in Threadneedle's governance and responsible investment developments. The overall responsibility for policy and strategy lies with Threadneedle’s Chief Investment Officer.

Governance and Responsible Investment team		
	Mark Burgess Chief Investment Officer	
	Leigh Harrison Head of Equities	
	Cormac Weldon Head of US Equities	
	William Davies Head of Global Equities	
		Simon Brazier Head of UK Equities
	Philip Dicken Head of European Equities	
		Vanessa Donegan Head of Global Emerging Market and Asia ex. Japan Equities
	Iain Richards Head of Governance and Responsible Investment	
	Fionnuala O'Grady Governance and Responsible Investment Analyst	
		Cathrine de Coninck-Smith Sustainable and Responsible Investment Officer

ESG Research Process – communication is key

The analysis of environmental, social and governance (ESG) factors is incorporated into Threadneedle’s investment process to identify material associated risks and opportunities. The quality of a company’s management in addressing significant ESG factors with the aim of having a positive impact on sustainable returns is integral to our investment decisions. We look to quantify a business’s real financial, environmental and social returns in our view. Our research process is made to fit with the overall approach to research within Threadneedle and allow for a level of individual tailoring for different regional desks. The Threadneedle investment process follows a model of idea generation, research and debate to implementation. ESG research plays a part at different points in this model but is a key element of research and debate.

Proprietary Research

Threadneedle's ESG research is our own proprietary work and we focus on all three aspects of ESG. Corporate Governance analysis has been a core part of the team's responsibilities for over a decade, and our specific market policies are described in the dedicated proxy voting policy. Environmental and social analysis remain growing areas of importance for the team, as we can increasingly quantify their material impacts on shares in terms of risks and opportunities.

Important governance and responsible investment issues are those which may have a direct or indirect impact on a company's financial performance in both the short and long run. Some examples are changes to regulation, brand/reputation issues, physical threats (such as climate), cost implications (such as efficiency gains), fines, inputs (such as access to raw materials) and product evolution. The box below illustrates the various ESG topics we would focus on depending on industry.

Best-in-class approach

We use both top-down and bottom-up analysis in SRI research. After agreeing a house view on industry themes and areas of focus, we address bottom-up factors from a variety of perspectives. These include individual company performance on ESG issues. We also take into account adherence to the United Nations Global Compact principles. Among other things, these ten principles address human rights, labour standards, the environment and anticorruption. In terms of disclosure, we adhere to the Association of British Insurers Guidelines on Responsible Investment Disclosure. Following this assessment, we benchmark against the best ESG performer in the peer group and form an in-house view of the company's risks and opportunities on an ESG basis.

We source ratings externally as part of the input to our research process. We believe it is important to have independent inputs to the research. The ESG ratings are used to give an indication of a company's performance to allow us to screen for business activities, and generally as an initial step for further research. All of the inputs, described below along with internal conversations, may spark research on a particular company, sector or theme.

ESG-related risks and opportunities are discussed with the analysts and fund managers allowing them to form their own assessment of the holistic investment case.

Environmental	Social	Governance
Energy use	Human rights	Bribery & Corruption
Industrial waste	Labour practices	Disclosure
Product life cycle	Supply chain	Board issues
Biodiversity	Health & Safety	Risk management
Water	Stakeholder partnerships	Remuneration
Climate change		
New product development		

A variety of Inputs

Aside from the insights on environmental and social issues derived from our team members' own academic and professional backgrounds, we formulate our views on ESG issues via a number of information channels. The close working relationship between Threadneedle's fund managers and internal analysts on the SRI team is invaluable in helping us to understand the business environment for particular sectors and companies.

External advisers and material are chosen for their focus on the financial opportunities and risks posed by companies' ESG profiles which can feed directly into our investment process.



Controversial Weapons Policy

In addition to our best in class approach, we implemented a Controversial Weapons policy in November 2011. This policy was introduced as a simple measure to comply with legal restrictions in certain jurisdictions regarding direct investment in companies producing such weapons. We believe this is a prudent move to protect our clients and our own interests. The policy reads as follows:

The UN Convention on Cluster Munitions came into force on 1 August 2010. This Convention prohibits all use, stockpiling, production and transfer of cluster munitions. Threadneedle Investments acknowledges the importance of the Convention and actively screens companies for evidence of their corporate involvement in not only cluster munitions but also in controversial weapons more generally, (defined as anti-personnel mines, cluster munitions, biochemical weapons and depleted uranium ammunition and armour). Where a company is verified to undertake such activities, Threadneedle's policy is not to invest in the securities issued by that company. We reserve the right to take short positions in such securities.

Company Dialogue, Engagement and Monitoring

We believe in our responsibility as active shareholders and work closely with the directors and management teams of the companies in which we invest to promote best practice. We engage in global proxy voting according to our corporate governance principles (see the Governance and Proxy Voting Policy). While we support management where possible, we intervene and press for change where appropriate, either individually or through collaborative initiatives. We continuously monitor and report on our investments to establish accountability to corporate environmental, social and governance (ESG) commitments.

Dialogue

Dialogue is a critical element of active fund management, providing us with a deeper understanding of the financial and other significant aspects of a business investment, while making companies aware of our expectations. Our fund managers regularly meet with management and board members to develop a two-way flow of information. Members of our Governance and Responsible Investment team routinely attend these meetings to engage with directors on specific corporate governance and SRI issues. We agree with the UK Corporate Governance Code principle that dialogue between ourselves and companies must be based on the “mutual understanding of objectives”. We exercise our influence in a positive and responsible manner, working in partnership with the companies we invest in.

Engagement

As an active shareholder Threadneedle believes in the responsibility and value of engaging with companies on material ESG issues. We do not invest with the aim of pressing for changes to ESG practices.

We adopt an in-house view through our research process and we then engage with companies either individually or collaboratively. We collaborate with a range of member organisations, such as the UN PRI Clearinghouse and the various investment forums. The sharing of ideas and ultimately pressing for change with the backing of a group sends a powerful message. We are a firm believer in the collaborative approach, provided there is a shared agenda and the intended outcome is clear.

We have an open-door policy for activist investors and think-tanks, NGOs and some pressure groups. Our dialogue with these bodies gives us a more multi-faceted view of stakeholders' positions and allows us to achieve a well-informed research view. However, we consider carefully when acting in concert and have internal procedures to deal with any particular areas of conflict.

We engage where we find it appropriate to do so on a variety of areas including corporate governance, environmental questions and social issues. The engagement progress will usually focus on significant holdings, contentious issues or opportunities that present themselves.

Our Governance & Responsible Investment meetings will typically be with the chairman, senior non-executive director or sustainability directors with specific responsibilities. The discussions will cover a wide range of ESG issues, such as proposed changes to remuneration policies, environmental management and labour welfare. Where companies engage with us, we aim to provide a full and considered response.

Monitoring

Monitoring is a key element of the engagement process. The time frame will vary significantly depending upon the severity of the issue and the structural implications of change. The progress and outcomes of the different engagement processes are tracked and communicated both internally and externally.

Investment implications of integrated ESG research and engagement

Threadneedle's teamwork culture encourages the sharing of ideas and generation of strategies across the investment floor. And our ESG research and engagement approach is well-aligned with this culture.

ESG research is included in major stages of the investment process, as part of the analysis of long-term, quality investments. The SRI research team aims to target research and engagement to maximise relevance across the investment floor. The monitoring of focus lists and regular involvement in team discussions helps to identify the most appropriate areas of research. Main areas of input include:

- Stock reviews
- Themes and sector reviews
- Company meetings (preparations and notes)
- Weekly and ad-hoc updates
- Where appropriate, relevant fund managers are present at ESG related meetings, enhancing their understanding and appreciation of risks and opportunities
- Morning meetings

Where and how does it add value? We believe that incorporating ESG criteria will enable fund managers to make better informed investment decisions. Individuals and teams make their own decisions, but ESG forms part of the assessment. This means that it is difficult to make a quantitative assessment of where ESG research adds value. The strategy has resulted in substantial dialogue between the SRI analysts and fund managers and three broad categories of added-value include:

- Fundamental analysis - risk and opportunities assessment
- Efficient diversification – uncorrelated themes and regions
- Risk control – there is potentially an ESG risk premium across the fund

Reporting and disclosure

Threadneedle regularly reports on our Corporate Governance and SRI activity. The amount of reporting sought in this area is rapidly changing, but we aim to provide clients with the information they require. Over the years, we have significantly increased our transparency in terms of ESG research and proxy voting through quarterly and annual reports.

In terms of proxy voting, we comply with the UK Stewardship Code on voting disclosure. Our aim in reporting is to provide a quarterly assessment of the degree to which the companies we are invested in have failed to conform to our principles without justification and how we have responded. Where we have been unwilling to support the management at General Meetings or supported management in apparent violation of our principles we will endeavour to provide full explanations. We will provide such reports to clients. However, it will not always be in the interest of long-term value creation to fully disclose sensitive company assessments or engagements to the public, and we exercise our discretion in this matter.

Our publicly available quarterly review includes detailed examples of ESG integration activities, investment implications and an overview of our proxy-voting activities. We provide a broad overview of how many resolutions we have voted, in which markets and an understanding of how many resolutions we have opposed. We also publish an annual review of our voting activities, highlighting our areas of concern during the course of the year. We review our level of disclosure in this area annually.

Conflicts of interest

Asset management is our only business. Even so, it is possible that situations may arise which would lead to concerns over possible conflicts of interest. Such considerations of stewardship are included in our firm-wide conflict-of-interest policy. In cases where the company in question is also a client, or potential client, we adhere to the following procedure:

- The Governance and Responsible Investment team will meet with the researcher for the stock and the relevant Equities Desk Head to discuss the situation and define our approach based on the specific circumstances
- The relevant Desk Head responsible for our final engagement and voting decisions will act to ensure that our course of action will best serve the interests of our entire client base
- The Relationship Manager for the client, or potential client, is informed of the decision, but is not involved in deciding our course of action.



Find out more

Speak to your usual Threadneedle Investments contact.
Visit [threadneedle.com](https://www.threadneedle.com)

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