



Threadneedle (Lux) European Social Bond Fund

Annual Social Impact Report
May 2018-June 2019



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Fund summary

The Fund, the first of its kind in Europe, aims to deliver both a financial and a social return by investing in corporate bonds across Europe. It has a clear focus on supporting positive outcomes for individuals, communities or society as a whole.

Objective

The Fund is designed to balance social outcomes, financial return and liquidity. It strives to offer corporate bond risk/return characteristics, as well as clearly demonstrable social alpha. The fund aims to invest 80% of its assets in European debt securities, the rest being allocated internationally.

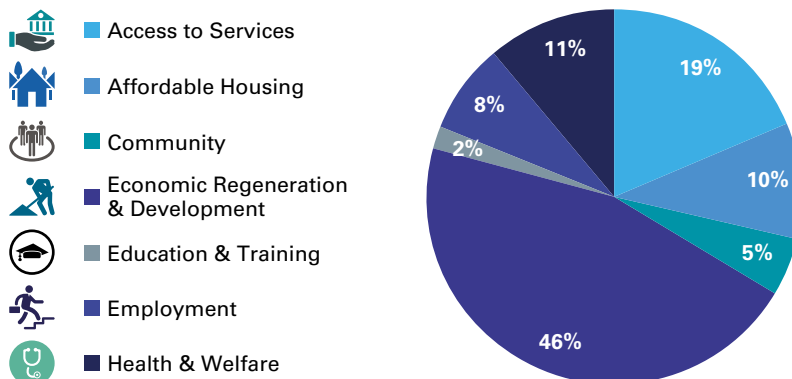
Investments & Accreditations



Social Targets & Profile

Social Target	Achievement 2018-2019	Achievement 2017-2018
Over 15% of the fund invested in Social Impact Investments (rated A). Target raised to 20% for 19-20. Figure shown at the end of the reporting period.	24.8%	18.0%
Under 25% of the fund invested in Lower Social Outcomes (rated C3 or C4). Figure shown at the end of the reporting period.	21%	23.7%
Raising the Average Social Intensity Score year on year.	18.1	17.1

Investments with a dedicated or priority focus on lower-income, vulnerable or higher-needs groups account for 29% of the Fund. New bonds that fund new developments, expansions or change represent 36%. It is invested in seven outcome areas – the single greatest being Regeneration & Development, which includes the majority of the Fund's Green Bonds.



Social & green highlights

Over the year, we have invested in organisations and bonds delivering and enabling tangible impact. Highlights are shown below.

Social Highlights

Over the year, our investments included 92 social bonds or bonds with social benefit, which contributed in:



- > Financing approximately 188,000 social homes
- > Supporting 110 housing associations
- > Funding residential businesses with over 5,800 lower-cost homes



- > Allocating over half a billion euros to advanced nutrition and global health priorities
- > Benefiting around 17 million patients
- > Reaching 23 million beneficiaries of water & food security projects
- > Funding or employing at least 34,000 health researchers & scientists



- > Seven bonds supporting micro, small, medium or women-led enterprises
- > These created and retained over 175,000 jobs and made supporting services available to 1.3 million farmers
- > Bonds supported over 1.5 million microloans, from which one supported over 86,000 microloans to women

Green Highlights

Over the year, our investments included 58 Green/Sustainability Bonds, representing 41% of the Fund by number:

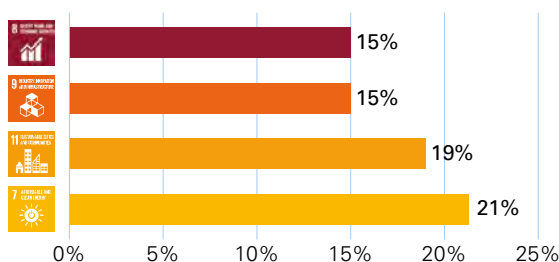


- > These show a positive impact on greenhouse gas (GHG) savings:
 - Green bonds financed had annual GHG savings of approximately 21 million tons of CO₂e. This equates to closing 5.4 coal-fired power stations for a whole year
 - Provided over 15 billion GWh of renewable energy

SDG Alignment

All our investments are mapped to the UN Sustainable Development Goals (SDGs), demonstrating the Fund's alignment with global social and environmental imperatives. The four most impacted SDGs were 7, 8, 9 & 11.

SDG Alignment



Example of served

SDG Targets & corresponding bonds

7.2 Increase the share of renewable energy in the global energy mix: IBESM, ENEL finance, etc.

8.3 Promote development-oriented policies that support productive activities, decent job creation and entrepreneurship: Instituto de Crédito Oficial, Cassa Depositi e Prestiti

9.4 Upgrade infrastructure and retrofit industries to make them sustainable: Unibail-Rodamco, Enexis Holding

11.2 Provide access to safe, affordable, accessible and sustainable transport systems for all: Deutsche Bahn, SNCF

Forward

In the year since the last Impact Report, there have been some noticeable achievements. A very positive outcome when the social impact of the portfolio's investments is taken into account as is evident from the following pages. The fund itself has seen some significant inflows with an appreciation in assets under management of €23.4M since January 2019 leading to a portfolio of €59M at the 30th June 2019. The inflows reflect the increased interest and desire for responsible investment and the returns show that it is more than feasible to commit funds in a positive and constructive manner, a tribute to the process and enthusiasm of your management team ably led by Simon Bond.

The market place is recognising the need to facilitate investment in a socially conscious manner with a significant uplift in the number of Social Bonds launched over the course of 2019. This is not just an European phenomenon as it is also apparent in markets such as the USA. In the report investments held outside Europe are shown. This reflects a need to ensure sufficient liquidity exists within the portfolio but is not at the expense of impact and is restricted to 20% of the portfolio.

Insights into your manager's approach are later in the report, highlighting the link between investments and the United Nations Sustainable Development Goals (UN SDGs). The main focus of the portfolio is to deliver social benefits based on the seven areas of social outcome and on this basis SDG 11, Sustainable Cities and Infrastructure is currently the most heavily weighted sector. Alongside the SDGs, focusing on employment, health, energy and industry and innovation, these together make up 75% of the portfolio. A positive development this year through the new issuance has been that investments held to facilitate liquidity and offering a lower social return continue to be well below maximum permitted levels at 21%.

During the year there have been several bonds issued that have reflected on the work carried out by the Management team in advising and supporting new comers to this method of finance. One such issue was the inaugural Sustainability Bond launch by Caisse des Dépôts et consignations (CDC). This focuses on projects such as social housing, education and healthcare, along with green energy and real estate. The team had advised CDC on such a launch two years ago and it is heartening to see the advice responded to in such a positive manner.

The Social Advisory panel led by Inco, has worked well over the last year. We contribute to the process by commenting on and questioning the calculation of social value, monitoring the limits on exposure outside of Europe and on the less impactful C3 and C4 designation. In this manner I have much enjoyed the partnership with the other independent director, Marco Traversi, and it is with regret that due to his business commitments he feels unable to continue with his role on the panel. A successor will be announced shortly but I wish Marco well in the future and thank him very much for his participation.

James Fairweather

Independent member of the Social Advisory Panel

About the partners

About the Social Advisory Panel

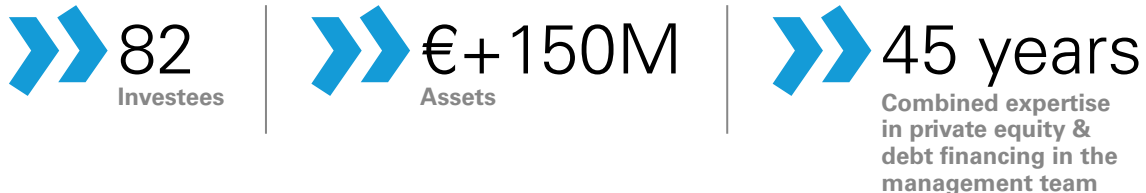
An independent Social Advisory Panel is in charge of ensuring that the application of the methodology and the management of the Fund is driven by social purpose. The board meets on a quarterly basis* to follow and review the social performance of the Fund and acts as an advisor on social viability of investments. The board is composed of seven members – the majority of whom are not employed by the Fund manager – to ensure independence of thought and oversight. Details of the members can be found on pages 45-46.

The Panel has set the Fund manager three targets, performance against which is shown on page 4.

- > **To invest over 20% in Social Impact Investments**
- > **To invest under 25% in Lower Social Outcomes (Bonds rated C3 and C4)**
- > **To increase the Fund's social intensity score over time**

About INCO

INCO is an investment firm with nearly a decade-long track record investing in socially inclusive and environmentally sustainable enterprises with compelling financial returns. Through both an international network of start-ups, support programmes, as well as local expert teams, INCO provides long-term equity and quasi-equity, from seed to growth stages. INCO complements its financial investments with strategic and technical assistance to support the growth, development and impact of its portfolio companies.



INCO manages or advises several funds, investing in early-stage social and green start-ups and in growth stage profitable, social & green companies. The firm advises the Threadneedle European Social Bond Fund in its social impact evaluation of European bonds. INCO acts as an independent advisor of the Fund, providing its expertise in the field of social and environmental evaluation. This partnership shows a common desire to support organisations that make a positive change in their community, whether they are companies, local authorities or non-profit organisations.

About Columbia Threadneedle Investments

Columbia Threadneedle Investments is a leading global asset manager, active in 18 countries. Knowing investors want strong and repeatable risk-adjusted returns the firm aims to deliver this through an active and consistent investment approach that is team-based, risk-aware and performance-driven. Responsible investment is an integral part of the investment philosophy and approach. As well as integrating Environmental, Social and Governance considerations across asset classes the firm runs a number of dedicated strategies across the Responsible Investment spectrum. After the launch of its UK and US Social Bond Funds, Columbia Threadneedle Investments has created and is managing the Threadneedle European Social Bond Fund.

*Wherever practicable, given the international spread of the members.

Methodology

Social hierarchy of needs

The Fund's methodology takes a social hierarchy-of-needs approach, whereby more primary and basic needs (affordable housing, healthcare) are prioritised over more general needs.

It is also aligned with United Nations' Sustainable Development Goals (SDGs): set in September 2015 through a multi-stakeholder partnership to form an agenda for achieving sustainable development by the year 2030.

Social need	Outcome area	SDGs
1. Primary Needs 	Affordable Housing <ul style="list-style-type: none"> • Social housing • Key worker housing • Independent living housing • Care homes 	
2. Basic Needs 	Health & Welfare <ul style="list-style-type: none"> • Physical health • Mental health • Healthy living • Rehabilitation & support 	 
3. Social Enabling 	Education & Training <ul style="list-style-type: none"> • Primary & Secondary • Vocational training & apprenticeships • Further & Adult education 	  
4. Social Empowerment 	Employment <ul style="list-style-type: none"> • Creation of jobs in deprived areas; and • Good employment standards 	 
5. Social Enhancement 	Community <ul style="list-style-type: none"> • Local amenities, services & environment • Care services • Personal (e.g. elderly) • Other community services 	   
6. Social Facilitation 	Access to services <ul style="list-style-type: none"> • Affordable financial products • First-time mortgages • Professional services • Communication & broadcast services 	  
7. Societal Development 	Regeneration & Development <ul style="list-style-type: none"> • Sustainable development • Public & community transport • Urban & community regeneration • Infrastructure & utility development • Environment & agriculture 	   

Social categorisation & scoring

The Fund employs a social categorisation and scoring methodology, evaluating the social characteristics and expected impact of each bond.

The **categorisation model** is designed to differentiate the nature of the investments in terms of their focus on achieving the Fund's social aims.

Category A – social impact investment

Funding is designed specifically to generate positive social impact, development and/or change.

Category B – investment with impact

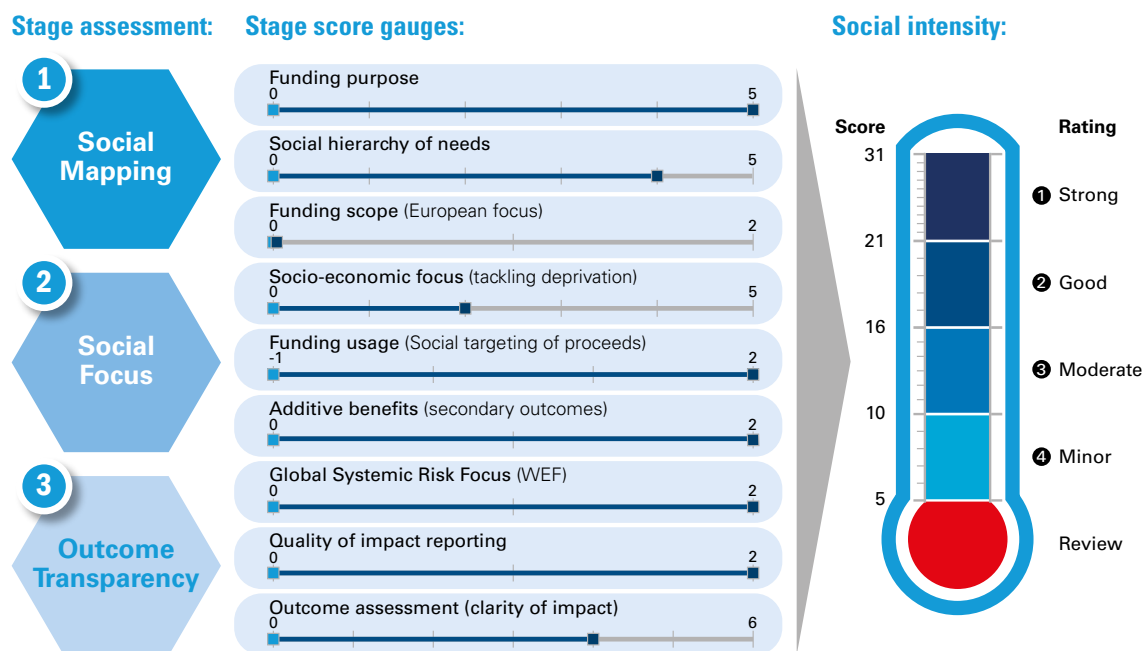
Funding is likely to generate expected and identifiable social impact for individuals, either indirectly or without specifically disclosed intentionality.

Category C – development finance & global impact

Investments in capacity, infrastructure and other projects that generate social externalities, contributing to positive social and/or economic growth and development.

Investments in higher-impact bonds which are listed in Europe, but where the main scope of the outcome is outside Europe.

The **scoring model** is designed to give a comparable, evidence-based score of the impact of a bond. It moves from initial social mapping, to assessing the degree of social focus, to outcomes and impact. A high-level outline of the process is shown below.



Source: Columbia Threadneedle Investments, 2018.

Values & governance

Values & ESG Risk

We start by shaping a Social Universe. This comprises only categories of bonds with higher potential for delivering social outcomes, and hence excludes those in areas that pose a higher risk of adverse impacts. We exclude bonds that meet the following criteria, which represent general minimum requirements and are assessed at the bond level:

- 1. Norm Adherence:** We exclude on any evidence of violation of key norms and standards
- 2. Sustainable Energy Focus:** We avoid those that generate material revenue from nuclear energy and coal
- 3. Health Enhancement:** We have minimal tolerance for tobacco production
- 4. Social Cohesion:** We exclude those that generate material revenue from adult entertainment or gambling
- 5. Weapon Avoidance:** We avoid weapons and firearms, with zero tolerance for controversial weapons
- 6. Severe Environmental Impact Avoidance:** We avoid companies with severe controversies related to water or biodiversity and land use. This applies to all issuers, including of Green, Social or Sustainability bonds
- 7. Controversial regimes:** We only invest in Green, Social or Sustainability bonds from governments. Nevertheless, we will not invest in countries with the death penalty, those subject to EU sanctions, those taking minimal collaborative action on Climate Change, or those considered to be oppressing freedoms or taking action which would violate principles of the UN Global Compact. Companies wholly owned by such regimes will be excluded

We also evaluate any material ESG risks as part of each social assessment. Any key issues are noted and, where they may jeopardise the overall social impact of an investment, the scoring may be affected, or the bond deemed out of scope for the Fund. We also review these issues during our monitoring process, described below.

Governance & Monitoring

The Social Advisory Panel plays a vital role in reviewing, checking and monitoring the Fund, while ongoing monitoring checks are undertaken by both the Mandate Monitoring and Responsible Investment teams.

Key issues and assessments are discussed at the Social Advisory Panel, comprising members nominated by our social partners, INCO and the Fund Manager. The Panel is Chaired by an INCO-nominated member.

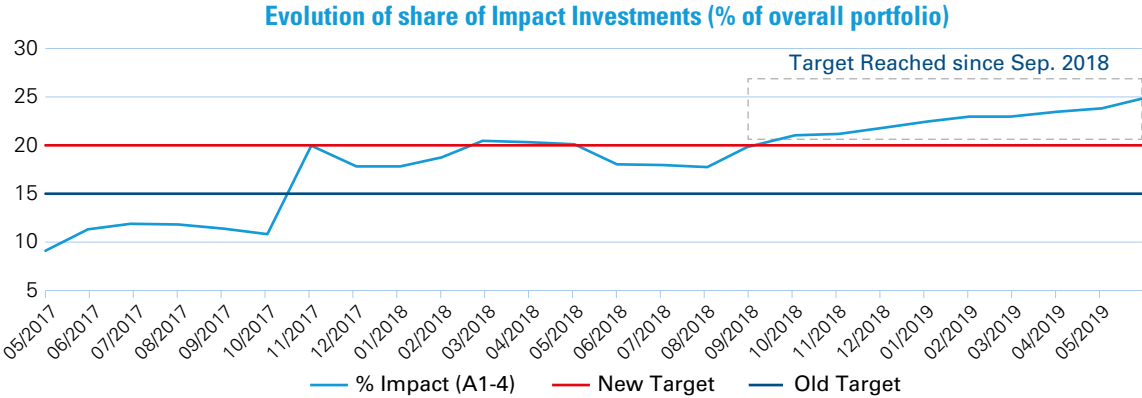
Ahead of each Social Advisory Panel, the Responsible Investment team undertakes portfolio screening to ensure that requirements are continuing to be met by Fund constituents. Any non-compliance – or high risk of non-compliance – are highlighted to the Social Advisory Panel.

The Panel has right of referral on the final assessment. If a bond is considered ineligible or no longer eligible for the Fund, the Fund Manager will draw up and implement an action plan comprising an exit strategy in the best interest of the underlying investors.

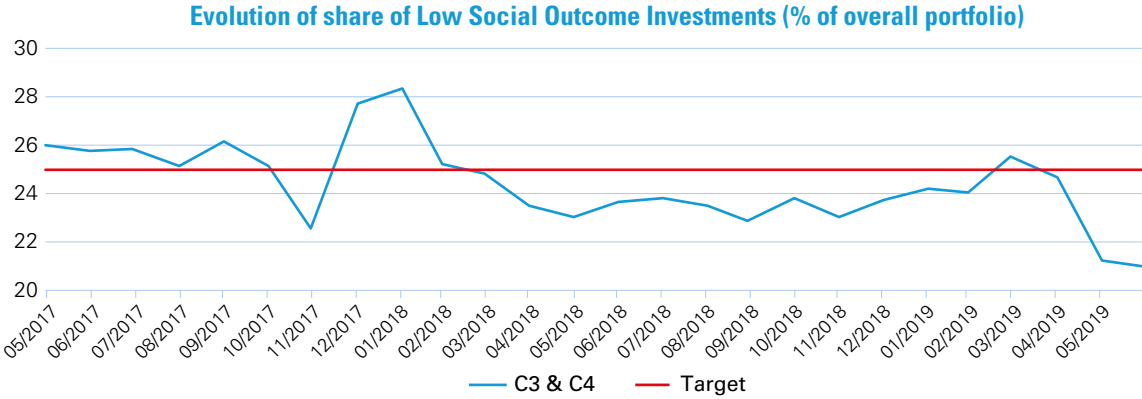
Social targets

The Fund met or exceeded all of its targets over the period.

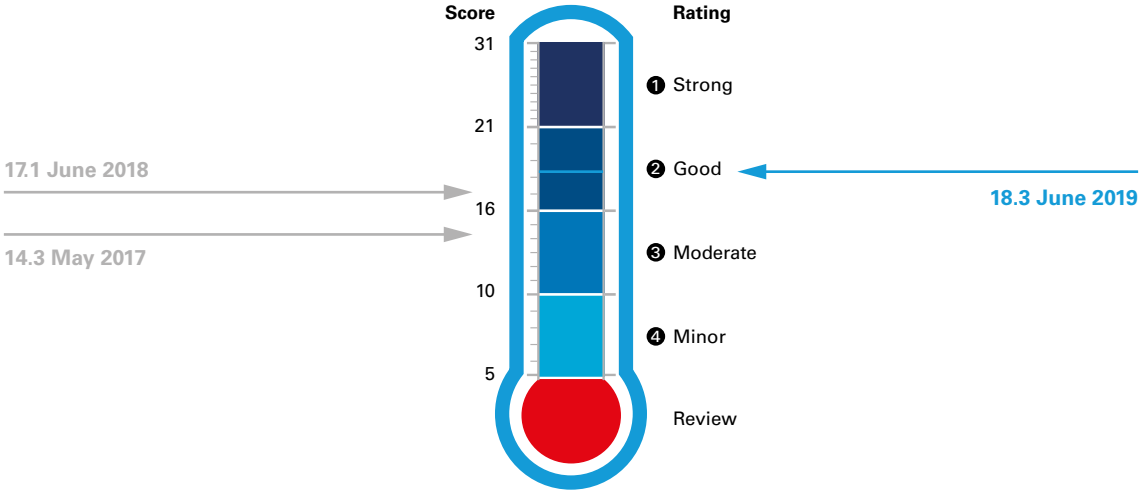
> 24.8% in Social Impact Investments (Target 15%*)



> 21% in Lower Social Outcomes (target of 25% maximum)



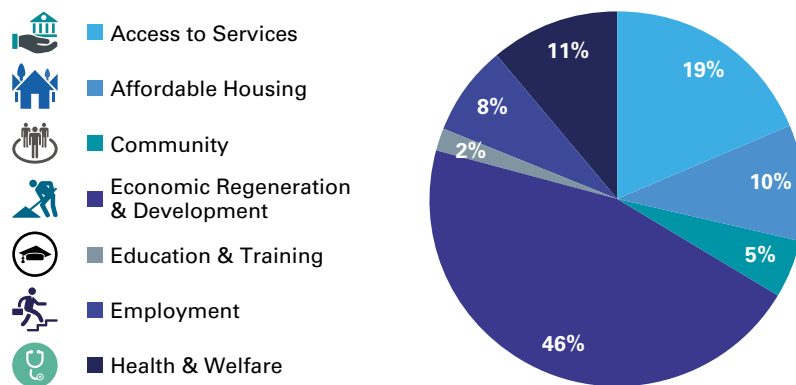
> Average social intensity score 18.3 versus 14.3 at Fund launch (targeting a continuous increase)



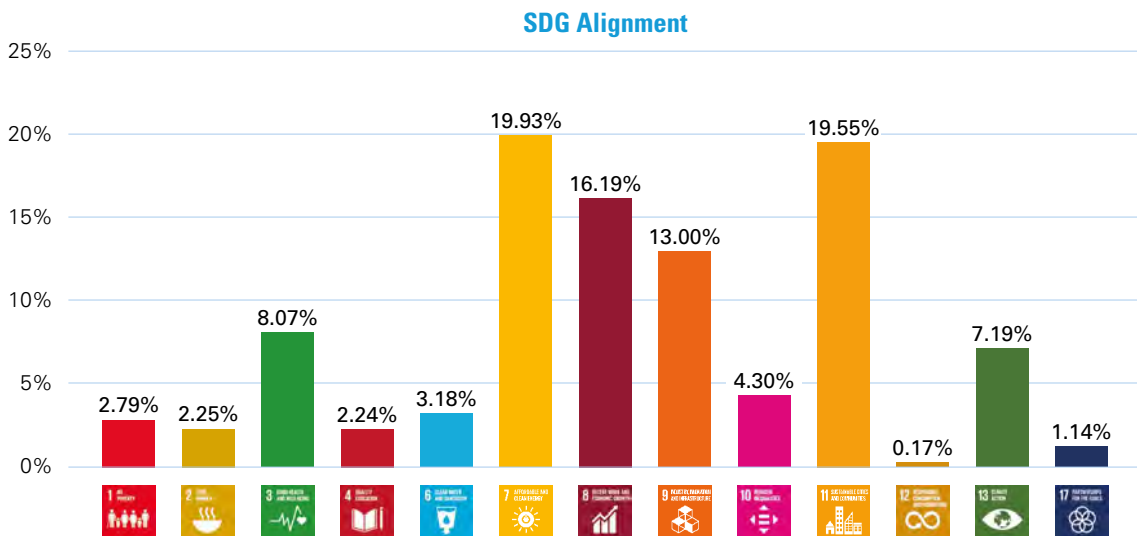
*As of 17th July 2019 the Social Advisory Panel raised the impact target in the Fund to 20%.

Social Profile

The Fund is invested in seven outcome areas, led by Regeneration & Development, which includes the majority of the Fund's Green Bonds. As a result, this area is dominated by infrastructure, which is particularly appropriate for bond financing.



All our investments are mapped to the UN SDGs, demonstrating the Fund's alignment with global social and environmental imperatives. The most affected SDGs are 7, 8, 9 and 11. This reflects the Fund's strong focus on renewable energy development (aligned with SDG 7), quality employment opportunities and encouraging micro, small and medium enterprises (SDG 8), supporting green infrastructure (SDG 9) and affordable housing and sustainable communities (SDG 11).

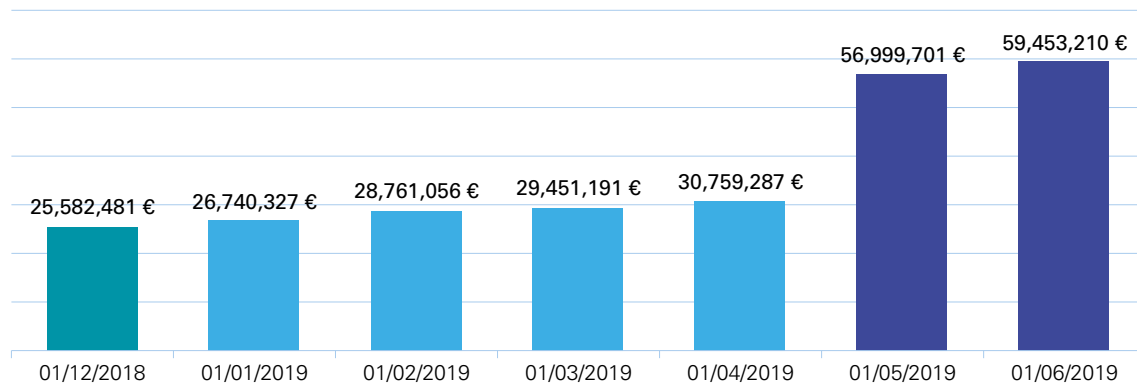


Fund Growth

The Fund’s AUM reached €59M in June 2019 representing a 300% increase over a one-year period. This rapid growth is partly explained by the growth in demand for responsible investment.

From January 2019 to June 2019, AUM has increased from €25,6M to €59,5M representing a 135% increase. One notable event during this six-month period was an inflow of €30,5M on the 28th May followed by an outflow of €4,5M of seed capital of the 29th May. This explains the sharp increase in AUM during May.

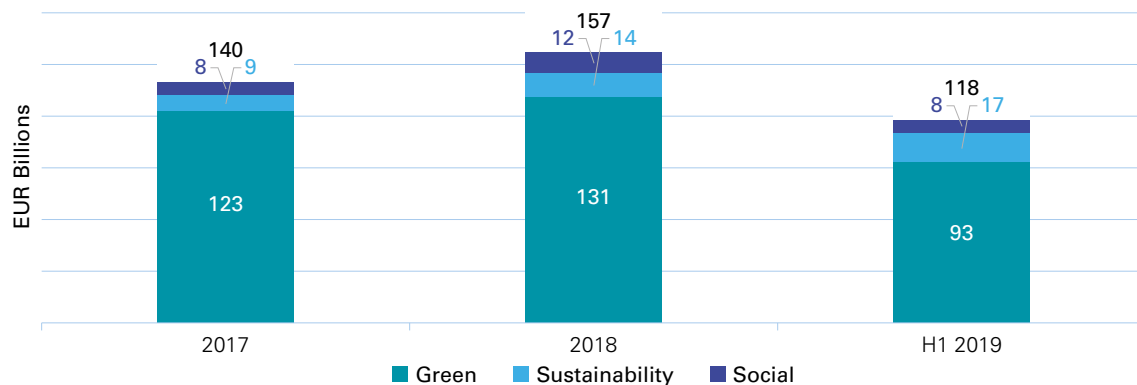
ESBF AUM Growth



Alongside AUM growth we saw the size of the labeled green/social/sustainable bond market grow:

- > YTD (30/11/2019) total issuance of €249Bn is already double vs. full year 2018
- > Share of Social and Sustainability bonds is increasing, reaching 23% of total issuances in 2019 versus 14% only in 2018 and 11% in 2017

Growth in Sustainability Issuance, 2017-2019

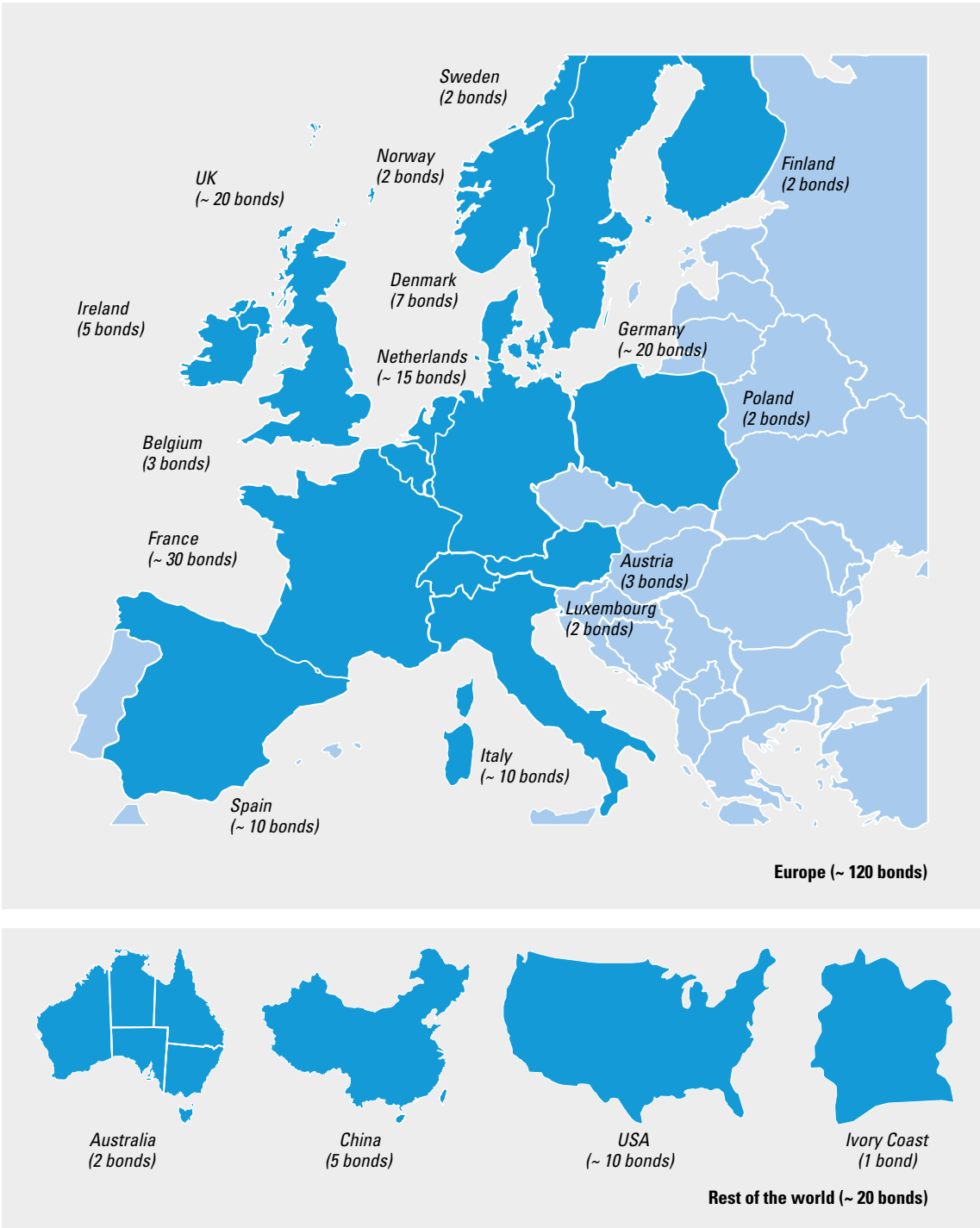


Top 25 Holdings

#	Name	Country of Issuance	Social Need Category	Thematic allocation	Score	% of portfolio	SDG
1	Cassa Depositi e Prestiti	Italy	Social Empowerment	Employment	A1	2.2	
2	European Investment Bank	Europe	Basic Social Needs	Health & Welfare	A1	2.0	
3	BPCE	France	Social Facilitation	Access to Services	C4	1.7	
4	City of Paris France	France	Social Enhancement	Community	A1	1.7	
5	Akelius Residential Property	Sweden	Primary Social Needs	Affordable Housing	B3	1.6	
6	Eurogrid	Germany	Societal Development	Economic Regeneration & Development	B3	1.6	
7	TenneT	Germany & Netherlands	Societal Development	Economic Regeneration & Development	B3	1.6	
8	Danone	Global	Basic Social Needs	Health & Welfare	C1	1.6	
9	Council of Europe Development Bank	Europe	Social Empowerment	Employment	A1	1.5	
10	Instituto de Credito Oficial	Spain	Social Empowerment	Employment	A1	1.5	
11	African Development Bank Social Bond	Ivory Coast	Basic Social Needs	Health & Welfare	C1	1.4	
12	Autonomous Community of Madrid	Spain	Basic Social Needs	Health & Welfare	A1	1.4	
13	Region of Ile de France	France	Primary Social Needs	Affordable Housing	A1	1.4	
14	Kingdom of Belgium	Belgium	Societal Development	Economic Regeneration & Development	B1	1.4	
15	AXA	Global	Social Facilitation	Access to Services	C3	1.4	
16	Innogy	Germany	Societal Development	Economic Regeneration & Development	B2	1.3	
17	State of North Rhine-Westphalia	Germany	Social Enabling	Education & Training	A1	1.3	
18	Regie Autonome des Transports Parisiens	France	Societal Development	Economic Regeneration & Development	B2	1.3	
19	CNP Assurances	France & Brazil	Social Facilitation	Access to Services	C3	1.3	
20	Banco Bilbao Vizcaya	Europe	Societal Development	Economic Regeneration & Development	B1	1.2	
21	Credit Agricole	France	Social Facilitation	Access to Services	B3	1.2	
22	Kreditanstalt fuer Wiederaufbau	Germany	Societal Development	Economic Regeneration & Development	B1	1.2	
23	Deutsche Wohnem	Germany	Primary Social Needs	Affordable Housing	C2	1.1	
24	Telekom Finanzmanagement	Austria	Social Facilitation	Access to Services	C4	1.1	
25	HSBC	Global	Social Enhancement	Community	B1	1.1	

Investment map

The fund targets positive social outcomes in Europe allowing itself a 20% international exposure to access high impact issues with global outcomes, improve liquidity and overall stability.



Thematic spotlight



Primary needs – affordable housing

One-sixth of the EU population lives in overcrowded dwellings, and one in 20 suffers from severe housing deprivation. A key component of UN Sustainable Development Goal 11: ‘Sustainable Cities & Communities’ relates to decent living and housing.

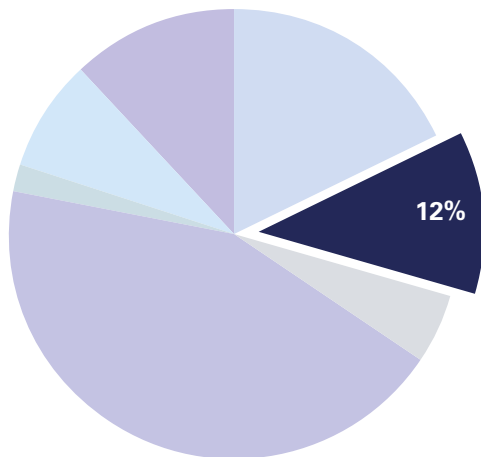
Under this outcome area, we seek to support organisations and bonds that increase the provision of quality and affordable homes and related local facilities. Examples include social housing, key worker housing, independent living housing and care homes.



Organisations and bonds within this area are:

- > **Financing more than 188,000 social homes**
- > **Supporting 110 housing associations**

The fund’s holdings in terms of affordable housing Development Opportunities (%)



Organizations supported

- The Flemish Community
- Region of Ile de France
- Credit Agricole
- Bayerische
- Landesbodenkreditanstalt
- Deutsche Kreditbank AG
- Deutsche Wohnen
- BNG Bank
- Nederlandse Waterschapsbank
- Akelius Residential Property
- Clarion



Social housing and student residence projects

Région Ile de France Sustainability Bond

1. Entity Overview:

- Ile de France is a French administrative region centered around the city of Paris. It has a population of 12 million representing 18.8% of the total French population. It is also the wealthiest region in France, with a GDP of 681 billion euros in 2018.

2. Bond Overview:

- Issued in 2012, it was one of the first Sustainability bonds offered by a local authority. The bond was issued with the intent of having strong social impact in the Ile de France region. Fifty percent of the proceeds are dedicated to the development of affordable housing whilst the rest is allocated to environmental developments.

3. Outcome and Impact:

- 130 social housing units built
- Secondary education (investing in and running 472 high schools and 1/2 million high school students)
- Examples:
 - social and student residence in Bry-sur-Marne
 - social housing in Carriere-sous-Poissy.

SDG & Target:



- SDG 11 – Make cities and human settlements inclusive, safe, resilient and sustainable
- Target 11.1 – By 2030 ensure access for all to adequate, safe and affordable housing

Bond type and rating

Social Bond Rating

A1

Use of Proceeds

Ringfenced – Sustainability Bond





Basic needs – health and welfare

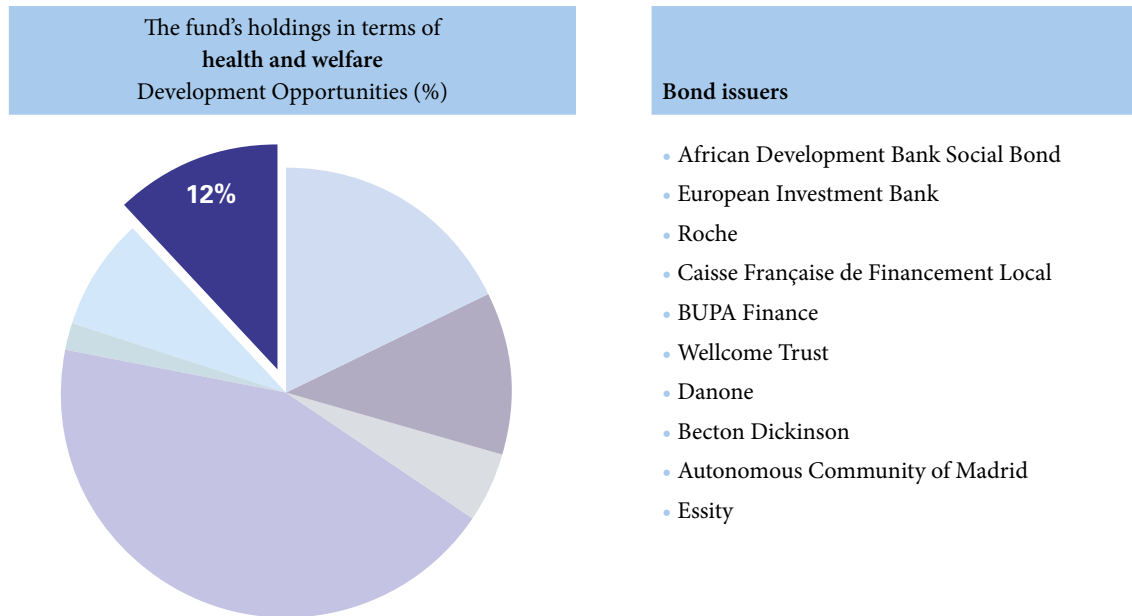
This area is focused on investments that help to deliver universal access to basic infrastructures and health services. This encompasses both physical and mental health, healthy living, rehabilitation and support, and well-being.

It is aligned with UN Sustainable Development Goal 3, Good Health & Wellbeing, which focuses on both communicable and non-communicable diseases.



Organisations and bonds within this area are:

- > **Allocating approximately EUR 1 billion to advanced nutrition and global health priorities**
- > **Benefiting 17 million patients & beneficiaries of water & food security projects**
- > **Funding or employing at least 34,000 health researchers & scientists**





Supporting most vulnerable populations through healthcare products & services

Becton Dickinson

1. Entity Overview:

- Becton Dickinson is an American medical technology company that manufactures and sells medical devices and systems. It employs 76,000 people in 50 different countries and made 15.9 billion dollars in revenue during 2018.

2. Bond Overview:

- While the issuance serves general corporate purposes, the company is a pure player in the healthcare field guaranteeing the bond's contribution to the company's production of medical devices, R&D and deployment in third world countries.

3. Outcome and Impact:

- \$1,6B were invested in R&D in 2018
- \$17,3M were invested in underserved areas
- 185 non-profits have benefitted from BD grants
- 20 million syringes were donated to support polio eradication.

SDG & Target:



- **SDG 3** – Ensure healthy lives and promote well-being for all at all ages
- **Target 3.8** – Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

Bond type and rating

Social Bond Rating	C3
Use of Proceeds	General corporate purposes





Social enabling – education & training

Education is a key enabler of social progress and mobility, with UN Sustainable Development Goal 4 dedicated to this area. We focus on bonds that support inclusive education and training programmes in primary and secondary education, as well as vocational training and apprenticeship, and further education.

2
Bonds

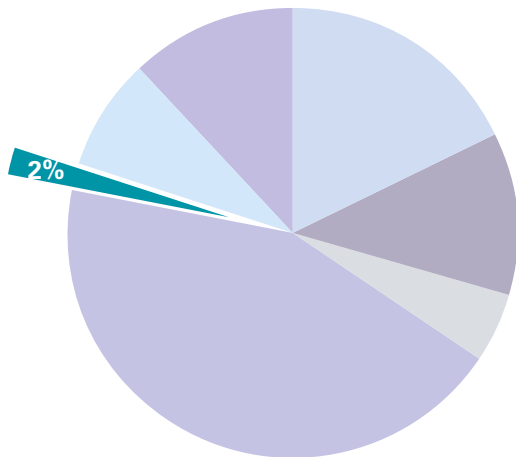
1
Social Impact Investment
> Disability Focus

1
Development & Global
> Affordable cost

The bonds will:

- > **impact over 3 million students**
- > **train approximately 179,000 teachers over 4 years**
- > **provide jobs for at least 125 people with disabilities**

The fund's holdings in terms of education and training Development Opportunities (%)



Organizations supported

- State of North Rhine-Westphalia
- Inter-American Development Bank EYE Bond



Giving children access to basic education across the world

Inter-American Development Bank (Education, Youth, Employment Bond)

1. Entity Overview:

- The IADB's was created in 1958 with the role of supporting economic and social development in Latin America and the Caribbean by lending to government's and government agencies. Today, it is the largest source of development financing in the region.

2. Bond Overview:

- The main focus of the bond is supporting education in early childhood in order to solve social exclusion, low productivity and innovation and limited economic integration.

3. Outcome and Impact:

- The IADB has approved 86 sovereign loan operations for a total financing amount of \$9,3B
- It has greatly improved primary and secondary education, vocational training and access to employment in a number of South American countries as well as the Caribbean.

SDG & Target:



- **SDG 4** – Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- **Target 4.3** – By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.

Bond type and rating

Social Bond Rating

C1

Use of Proceeds

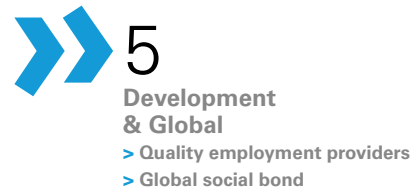
Social





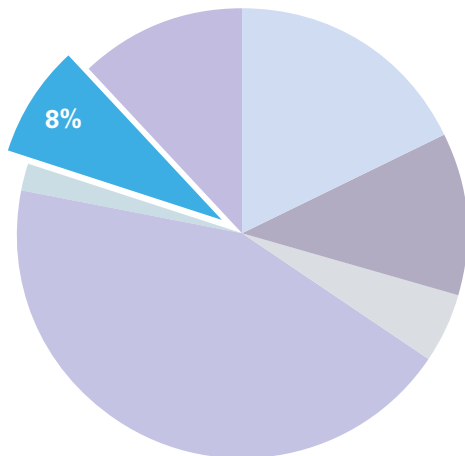
Social empowerment – employment

Lack of quality employment opportunity remains a key issue for Europe. We focus on issuers supporting inclusive job creation and growth in major employment sectors, especially in deprived areas and promotion of good employment standards. As such, it is aligned with SDG 8, Decent Work & Economic Growth.



- > These created and retained over 175,00 jobs and made available supporting services to 1.3 million farmers
- > Bonds supported over 1.5 million microloans, from which one supported over 86,000 microloans to women

The fund's holdings in terms of employment
Development Opportunities (%)



Bond issuers

- ISS Global
- Council of Europe Development Bank
- International Bank for Reconstruction and Development Bank
- International Finance Corporation
- Inter-American Investment Corp
- Cassa Depositi e Prestiti
- Instituto de Credito Oficial



Offering access to healthy food and empowering local populations

Instituto de Credito Oficial Social Bond

1. Entity Overview:

- ICO is a Spanish public bank that was founded in 1971. It's central role is to accompany the growth and overall development of the country especially the poorest regions.

2. Bond Overview:

- ICO's Social Bond targets projects supporting economically underserved Spanish areas. It focuses on infrastructure, access to healthcare, affordable housing, job creation, access to healthy food and economic empowerment of locals. Proceeds are used to finance small and medium enterprises in underdeveloped regions.

3. Outcome and Impact:

- 70,000+ jobs created
- 23,000+ businesses have been funded and supported.

SDG & Target:



- **SDG 8** – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- **Target 8.3** – Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

Bond type and rating

Social Bond Rating

A1

Use of Proceeds

Ringfenced – Social Bond





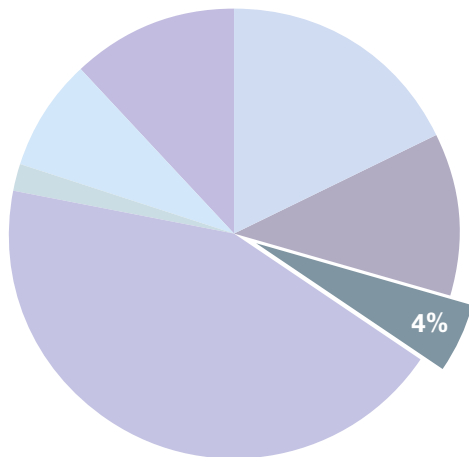
Social enhancement – community

Enhancing the quality of life and resilience of communities can include improving the availability of community services, local amenities, care services, or enhancement of citizenship, arts, sport and faith.

47
Million m3 of water
 > provided annually to
 3 cities in Mexico by 2030

2
Schools retrofitted
 > to enhance energy
 efficiency and improve
 the learning environment

The fund's holdings in terms of
community
 Development Opportunities (%)



Bond issuers

- SNCF Reseau
- Belgium Post
- Municipality Finance
- City of Paris France
- Investitionsbank Schleswig-Holstein
- HSBC
- Charities Aid Foundation
- Region of Wallonia



Providing sustainable mobility solutions through innovative tram systems

Wallonia Region Sustainability Bond

1. Entity Overview:

- Wallonia is one of the three regions of Belgium, its capital being Namur. With 3.6 million inhabitants it represents 31.8% of the Belgian population. In 2015, the region generated a GDP of approximately 95 billion dollars.

2. Bond Overview:

- The Bond will be used to finance 10 areas of focus (6 green and 4 social). Amongst others, areas of focus are renewable energy, energy efficiency, sustainable mobility, education and employment, socioeconomic advancements, affordable housing and access to basic public services.

3. Outcome and Impact:

- Building of new infrastructures to improve and develop energy efficiency and transport services
- Building of local health service centers
- Construction work to renovate and modernise schools and housing.

SDG & Target:



- **SDG 11** – Make cities and human settlements inclusive, safe, resilient and sustainable
- **Target 11.B** – By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change.

Bond type and rating

Social Bond Rating

A1

Use of Proceeds

Ringfenced – Sustainability Bond



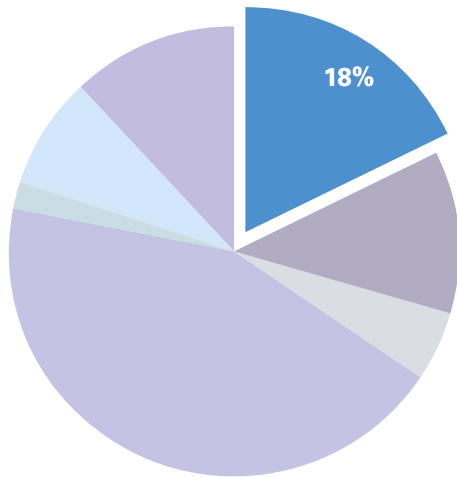


Social facilitation – access to services

Access to finance and technology are a vital part of contemporary life, and therefore underpin a number of the SDGs. We particularly focus on bonds that improve inclusion via the availability of affordable financial products, first-time mortgages, communication and broadcast services.

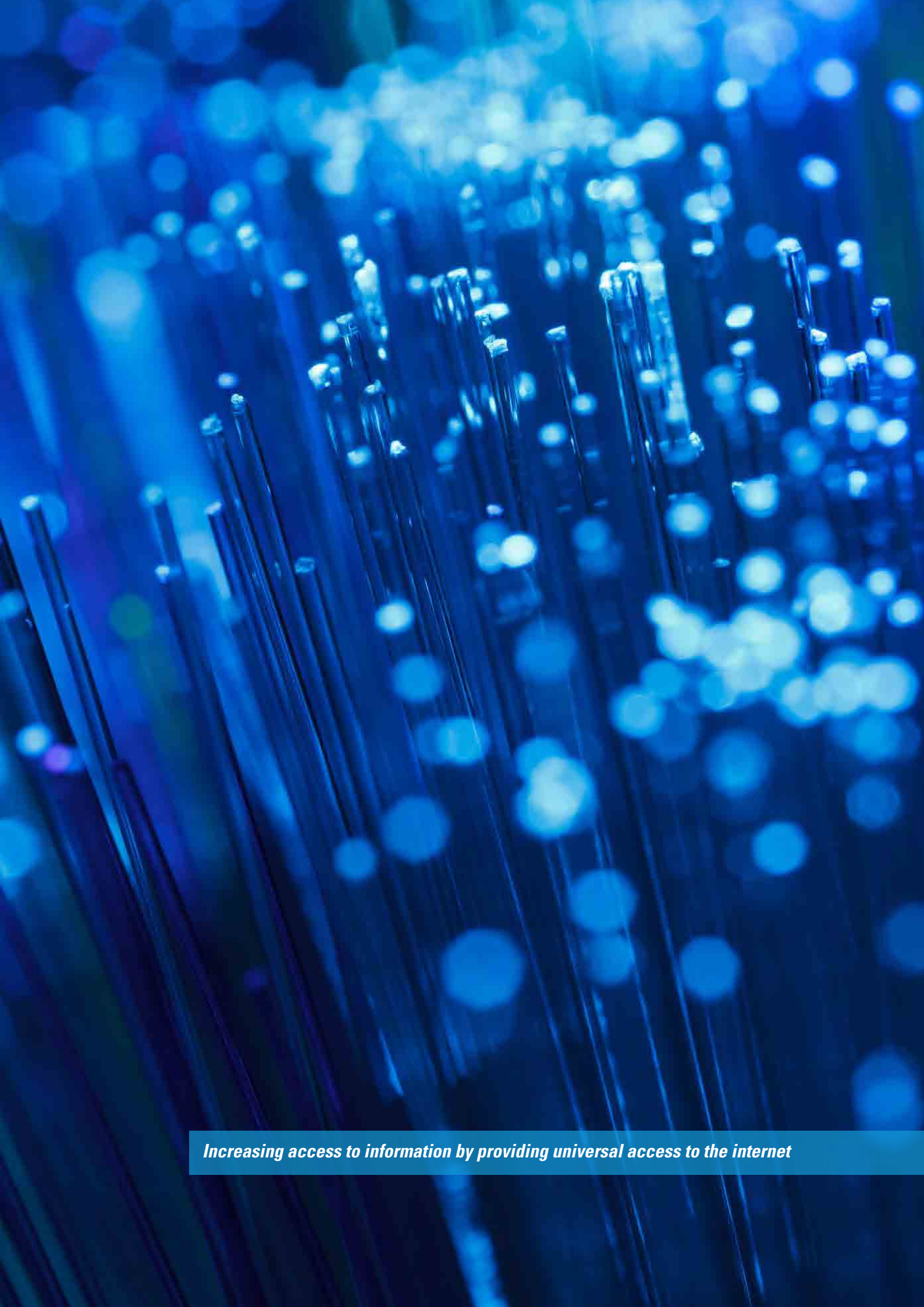


The fund's holdings in terms of access to services
Development Opportunities (%)



Bond emitters

- Telekom Finanzmanagement
- Nykredit
- BT
- UNEDIC ASSEO
- BPCE
- Deutsche Apotheker-und Aerztebank
- O2 Telefonica Deutschland
- Credit Agricole
- Allianz
- AXA
- Orange
- Basque Government
- Telefonica Emisiones
- Swisscom
- Motability Operations Group
- Yorkshire Building Society



Increasing access to information by providing universal access to the internet

Telefonica Green Bond

1. Entity Overview:

- Telefonica is a Spanish multinational telecommunications operator generating €50B in turnover in 16 different countries and employing more than 120,000 employees. It is one of the largest telephone operators and network providers in the world.

2. Bond Overview:

- The Telefonica Green Bond aims to improve the Spanish network in terms of speeds, quality and environmental impact by replacing old copper wires with optical fibre.

3. Outcome and Impact:

- Reducing Telefonica's network GHG emissions by 30% in 2020 and 50% in 2030
- Providing high speed internet to the whole Spanish population.

SDG & Target:



- **SDG 9** – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- **Target 9.C** – Significantly increase access to information and communications technology and strive to provide universal and affordable access to the internet in least developed countries by 2020.

Bond type and rating

Social Bond Rating

B3

Use of Proceeds

Ringfenced – Green Bond

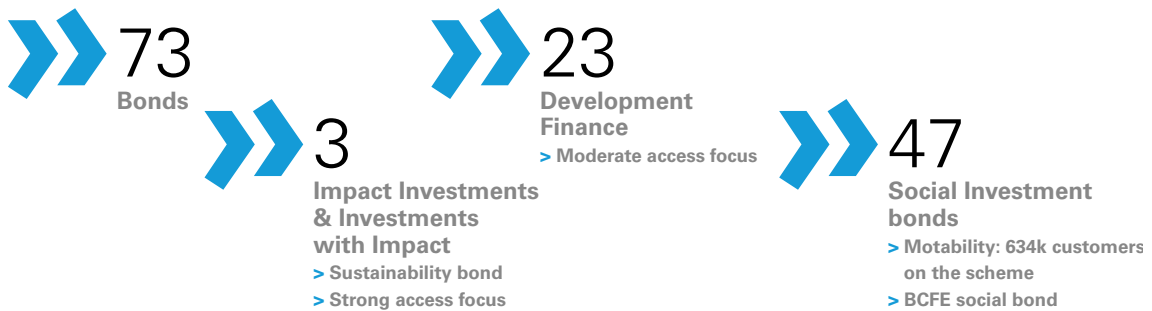




Societal development – regeneration & development

This area focuses on the environmental and economic areas that underpin social development.

These include supporting sustainable development and conservation, public transport, urban regeneration, infrastructure and utilities.



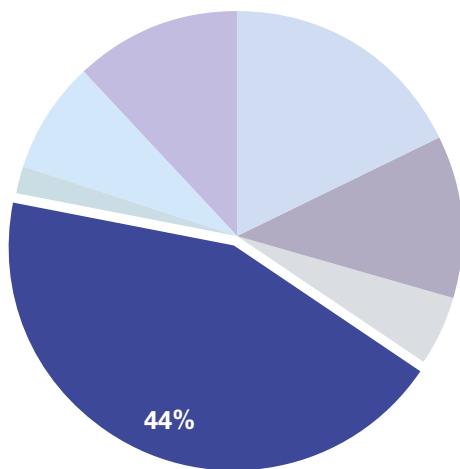
Environmental issues are increasingly becoming social issues, with climate change being a prominent example. The Fund is therefore partly focused on this specific area.

These show a positive impact on greenhouse gas (GHG) savings:



- > **Green bonds financed had annual GHG savings of approximately 21 million tons of CO₂e. This equates to closing 5.4 coal-fired power stations for a year**
- > **Companies whose bonds we bought provided over 15 billion GWh of renewable energy**

The fund's holdings in terms of regeneration and development Opportunities (%)



List of top 30 issuers

- Agence Francaise de Developpement
- Anglian Water
- Banco Bilbao Vizcaya
- Banque Federative du Credit Mutuel
- BNP Paribas
- Credit Mutuel Arkea
- Deutsche Bahn
- Enexis
- ERG
- Eurogrid
- French Republic
- Innogy
- Intesa Sanpaolo
- Ireland Government
- KBC Group
- Kingdom of Belgium
- Kommunalkredit Austria
- Kreditanstalt fuer Wiederaufbau
- La Banque Postale
- Landwirtschaftliche Rentenbank
- RATP
- Scottish and Southern Energy
- SNCF Reseau
- Societe Generale
- TenneT
- Unibail-Rodamco
- Vesteda Finance
- Vier Gas Transport



Offshore wind farms as major providers of green energy

Netherlands Green Bond

1. Entity Overview:

- The Netherlands is a North-western European country bordering the North Sea. It has a population of 17.3 million and is one of the most densely populated areas in the world. In 2019, its GDP was approximately 914 billion dollars.

2. Bond Overview:

- The bond will be used by the Dutch government to finance green or climate related expenditures and investments. There are 4 areas of focus which are investments in renewable energy, energy efficiency, clean transportation and climate change adaptation.

3. Outcome and Impact:

- Reducing CO₂ emissions and facilitating the country's transition towards a low carbon economy
- Improved welfare for local inhabitants
- Clean transportation.

SDG & Target:



- **SDG 7** – Ensure access to affordable, reliable, sustainable and modern energy for all
- **Target 7.2** – By 2030, increase substantially the share of renewable energy in the global energy mix.

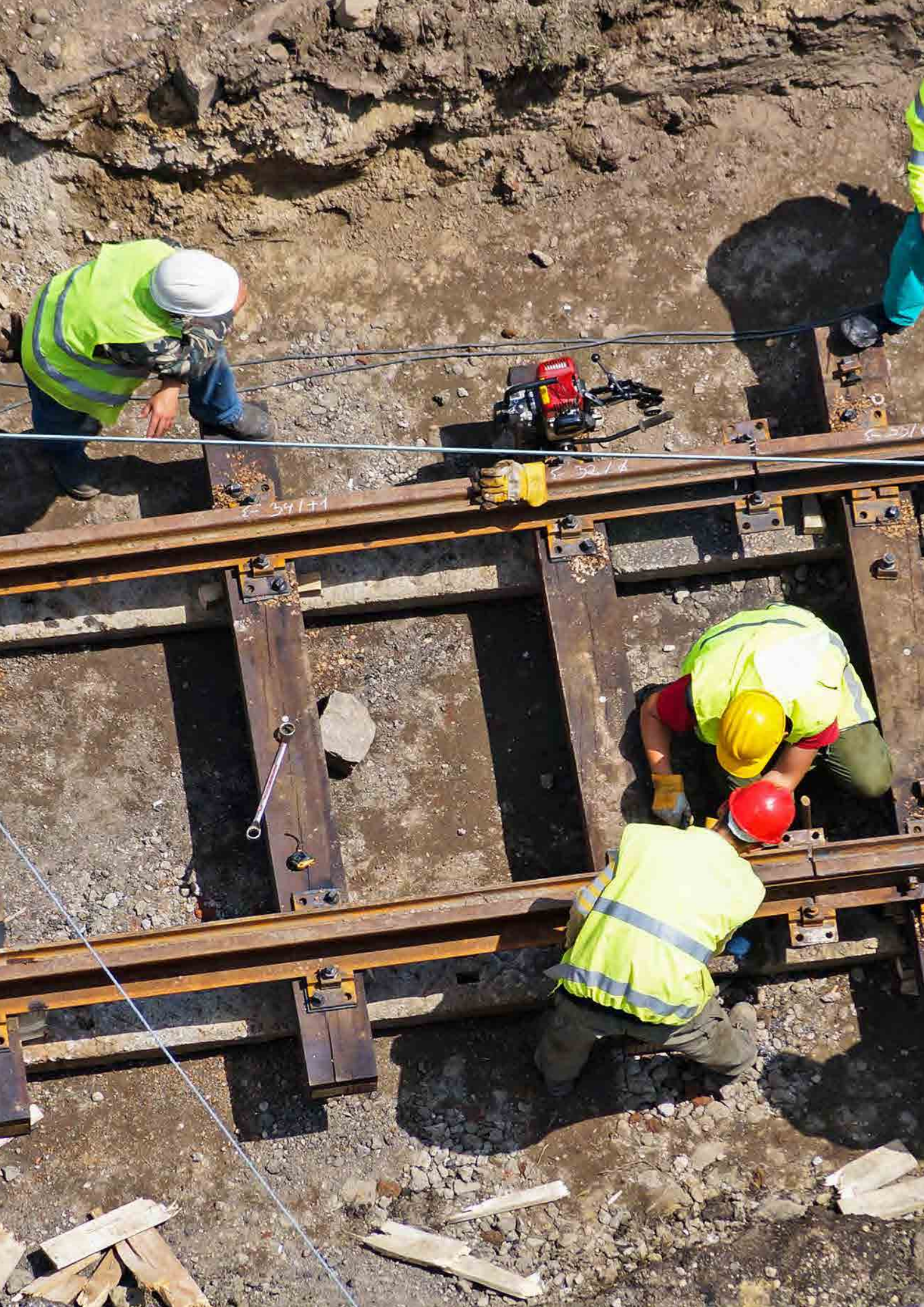
Bond type and rating

Social Bond Rating

A2

Use of Proceeds

Ringfenced – Green Bond



Conclusion

The Threadneedle European Social Bond Fund was launched in May 2017 and has already proven to be a unique and impactful financial product.

The European Social Bond Fund's second year has been one of momentous growth in the fund's assets, confirming the appeal of Threadneedle's innovative investment strategy. It has been a privilege, as well as a fascinating journey, for INCO to follow how such growth translates into stronger social and environmental outcomes.

Managing more assets creates a challenge in maintaining a fund's focus on bonds that deliver both financially and socially. Remarkably, the Fund has on the contrary beaten last year's achievements in terms of Social Intensity and proportion of impact investments versus lower outcome investments, reemphasising the great effort and skills of the CTI Team in sourcing the best bonds. As a result and in order to encourage continuous improvement, the Social Advisory Panel has raised the first Social Target which now demands that 20% of the portfolio be invested in Impact Investments.

Furthermore, the fund has also made changes to its selection process adding to its exclusion criteria the avoidance of "controversial regimes" and "severe environmental impact" strengthening its social regulatory requirements.

These achievements also shine a light on the proliferation of sustainability issuances, which grew YTD by 80% compared to a similar time period in 2018, a global phenomenon illustrated in full by the issuance of four different green, social and sustainability bonds on the same day 18th of September 2018.

Going further, the fund will have to tackle the diversification of the social outcomes it addresses, if the diversity of sustainable issuances allows it. Despite holding bonds in all outcome categories defined in the methodology, the portfolio is currently skewed towards "Regeneration and Development" bonds where many green and general-purpose bonds are categorized.

Last, we would like to applaud CTI's work engaging with issuers to encourage and demystify Social and Sustainable bonds, for this leads the way in mainstreaming Social Impact finance.

Jean-Michel Lecuyer

Chairman of the Social Advisory Panel

Biographies

Social Advisory Panel

James Fairweather

Chair of the Social Enterprise Academy

James Fairweather, is Chair of the Social Enterprise Academy, a leadership and empowerment group for the third sector and schools in the UK and overseas. James has been involved in social finance since 2013. Prior to this, he spent 35 years in mainstream finance, largely with an Edinburgh-based asset management company with a focus on global investment. During this time, James was a member of the company's management committee and a central board director for over 15 years.

Jean-Michel Lecuyer

Managing Director, INCO

Jean-Michel Lecuyer is the Managing Director of INCO. Prior to this, he worked in consulting in the environmental industry. From 2003 to 2014, he served both as the Managing Director of the SIFA (Société d'Investissement France Active) and as the COO of France Active, a nationwide network, financing social businesses for over 25 years.

Jean-Michel graduated from the École Polytechnique and from Mines ParisTech).

He is also Treasurer of MOUVES (French Fellowship of Social Entrepreneurs) and President of the supervisory board of SOLIFAP (Investment Society of the Abbé Pierre Foundation).

Gautier Kerdoncuff

Head of Consulting, INCO

Gautier is Global Head of INCO&Co, the Consulting subsidiary of INCO Group. His team supports corporates around the globe in their endeavour to improve their core business' social and environmental impact and in setting up innovation vehicles dedicated to the emergence of new impact ecosystems.

Part of this activity consists in rolling out INCO's home-grown impact measurement solutions to allow clients and partners to track and assess their direct and indirect impact.

Prior to joining INCO, Gautier was a management & strategy consultant at A.T. Kearney, where he performed missions in a variety of fields including private equity, innovative urban mobility and consumer goods.

Omar Bendjelloun

Investment Officer, INCO

Omar is an Investment Officer for INCO's Venture Capital arm and coordinates impact measurement at group level. He manages a growing portfolio of investments in sustainable food, accessibility tech and job inclusion, and contributes to deal origination and due-diligences at the firm.

Prior to joining INCO, Omar worked as a Financial & Impact Analyst at France Active Group, one of the leading impact investing firms in France, where he contributed to more than 50 quasi-equity investments in Parisian SMEs.

Omar holds a Master of Science in Management from ESSEC Business School with a double major in Corporate Finance and Social Entrepreneurship and has completed CFA Level 1.

Simon Bond

Director – Responsible investment portfolio management, Columbia Threadneedle Investments

Simon Bond joined the company in 2003 and has been the portfolio manager of the Threadneedle UK Social Bond Fund since its launch in 2013, as well as of the Threadneedle (Lux) European Social Bond Fund launched in 2017. Having previously managed a number of institutional and retail investment-grade corporate bond portfolios, Simon now focuses on managing Columbia Threadneedle's social bond portfolios, leading the Responsible Investment team's thematic research and supporting the firm's development of other responsible investment strategies. Simon has 31 years' experience in the fund management industry, with the last 26 years spent in corporate credit.

Prior to joining the firm, Simon managed £6 billion in his role as the Senior UK Credit Fund Manager for AXA. Simon also worked for GE Insurance as a Portfolio Manager, Provident Mutual as a Fixed Income Analyst and Hambros Bank as an Investment Accountant and Pension Fund Investment Administrator.

Simon is a Fellow of the Chartered Institute for Securities and Investment, and holds the Investment Management Certificate and the General Registered Representatives Certificate.

Biographies

Iain Richards

Head of Responsible Investment, Columbia Threadneedle Investments

Iain Richards joined the company in 2012 and is Head of Responsible Investment for the Global business, where he leads the strategy, development and implementation of Responsible Investment activities.

Before joining the company, he worked for Aviva Investors and Schroder Investment Management.

He has also worked in regulation as a member of the Policy Group of the UK's Listing Authority (including

on the introduction of the UK's corporate governance 'comply or explain' rule in 1993) and at the London Stock Exchange. Before working in the City, he worked at the UK's Department of Trade and Industry (now BEIS) in various roles in the European and competition policy units.

The panel is currently reviewing options for a 4th member in replacement of Marco Traversi.

Responsible Investment Team – Thematic & Portfolio Analysts, Columbia Threadneedle Investments

Ben Kelly

Ben Kelly is a Senior Thematic Analyst (Behavioural Economics), in Responsible Investment at Columbia Threadneedle Investments. His principal responsibility relates to the development, delivery and integration of thematic research within the context of responsible investment strategies, in particular sustainable outcome strategies across real asset and fixed income portfolios.

In addition, Ben leads the firm's idea generation in behavioural science from a thematic and governance perspective which includes providing behavioural insights to the investment teams regarding biases in investment decision making. Prior to joining the company, Ben worked in BlackRock's Investment Institute, where he combined macroeconomic and thematic research across equity, fixed income and real asset teams with expertise in behavioural finance and investment decision making. In this context, he worked with fundamental and quantitative alpha generation teams, focusing on their investment processes and how these can be modified to combat behavioural biases.

Ben is a visiting lecturer in behavioural science at the University of St Andrews and London School of Economics.

He holds a BSc (Hons) in Chemistry, an M.Litt. in Management, Economics and International Relations and a PhD in Economics, all from the University of St Andrews.

Jess Williams

Jess Williams is an Analyst in the Responsible Investment team at Columbia Threadneedle Investments where she is focused on providing thematic, investment focused research and supporting specialist responsible investment strategies.

Prior to joining the firm, Jess worked at S&P Global Ratings, where she developed sustainable finance products and published research on ESG-related topics. Prior to this, Jess worked on the Global Innovation Lab for Climate Finance at the Climate Policy Initiative in Venice and completed internships at both Inflection Point Capital Management and the CDP (formerly Carbon Disclosure Project).

Jess has an MSc in Environmental Technology and a BSc in Biology, both from Imperial College, London, and has completed CFA Levels 1 and 2.

Calculations & references

All statistics included in this report are based on publicly available information. They represent minimum figures based on disclosure. Not all bonds report on each of the metrics we consider and therefore figures are likely to be underestimated in some cases. For full references, please see the next page.

Affordable Housing

Social homes: The sum of social housing units that have been developed or are being developed. Figure includes units financed by BNG, Ile de France, Flemish Community, NWB and Deutsche Wohnen's sponsored residential units for socially disadvantaged individuals.

Housing associations: The number of housing associations being financed by social bonds. The figure includes statistics from BNG.

Lower cost housing: The number of housing units defined as lower cost by the issuer or financed by low-interest loans. Figure includes statistics from Vonovia and Bayern Labo.

Health and Welfare

Advanced nutrition and global health priorities

EUR allocation: The sum of bond proceeds from the Wellcome Trust, plus the portion of the Autonomous Community of Madrid bond dedicated to high impact medications, orphan drugs and uncommon diseases and the proceeds used by the ADB to fund a medical coverage reform support programme in Morocco.

Beneficiaries: The sum of the beneficiaries from agricultural- and water-related projects financed by the African Development Bank social bond and figures from Danone's social bond impact reporting.

Health researchers or scientists: The sum of Roche scientists and those supported by the Wellcome Trust.

Employment

Jobs created and retained: The sum of the jobs estimated to have been created or retained by projects and companies financed by the bonds in question. This figure also includes the total estimated number of jobs generated by the Westfield London development, now part of Unibail-Rodamco-Westfield. The statistic includes figures from Cassa Depositi e Prestiti, Unibail Rodamco, Council of Europe Development Bank and Instituto de Crédito Oficial.

Farmers supported: The figure represents the expected number of farmers that will have been reached by the loans provided by the IFC's social bond in 2018.

Regeneration and development

GHGs avoided: Only bonds which disclose estimates of GHGs avoided per year are included (bonds only disclosing lifecycle impacts and not an annual estimate are excluded). Where total emissions for the green bond portfolio are disclosed, this figure is scaled down to the proportion of the total portfolio that the bond we have invested in accounts for. For example, if a US\$1 million portfolio saves 2 million tonnes of CO₂e per annum and we invest in a bond from that portfolio with a size of \$0.5 million, we would attribute 1 million CO₂e (2 x 0.5) to our total estimate of GHGs avoided.

Coal-fired power station equivalent: This statistic is calculated using the estimated GHGs avoided (methodology above) and the EPA's Greenhouse Gas Equivalencies Calculator.

