

Website Disclosure - SFDR

Product name : NN Threadneedle Global Smaller Companies Fund

Categorisation: article 8

Legal entity identifier (CODE LEI) : 549300P1862TXM0YEB58

Version : 22/02/2023

a) Summary

The fund is classified as Article 8, and so promotes environmental and/or social characteristics but does not have a sustainable investment objective. To achieve this, it has certain specific ESG requirements:

A Positive ESG tilt: measured by our internal ESG Materiality Rating model, better than the benchmark over rolling 12-month periods. The model gives a rating for each company, indicating how well they are managing material ESG risks and opportunities.

Exclusions: we exclude companies which do not promote environmental or social characteristics. This includes controversial weapons, and companies in breach of accepted international standards and principals.

Engagement: we engage with management, aiming to influence companies' approach to ESG risks and practices, in areas such as carbon emissions, board independence and diversity.

Good governance: all companies in an Article 8 fund must follow good governance practices. We have developed a model which flags poor practices and potential controversies. We also conduct our own assessment before investing and review governance practices continually on all stocks held.

All holdings in the fund are subject to the exclusion policy, and at least 75% of the equity investments held are scored by our ESG Materiality Rating model. Cash and cash-equivalent assets are not counted when calculating the environmental and social profile of the fund.

Monitoring is a crucial part of our investment activities, to ensure that the fund is managed within its stated investment objectives and adheres to any restrictions. It is performed at several stages during the investment process, by the investment teams and by independent oversight groups. All investment team members have continual access to fund data for their own monitoring, the Investment Consultancy & Oversight Group ensure managers adhere to their stated philosophy and process, including ESG elements. The mandate compliance team ensures the fund is managed within its investment objectives and restrictions. The risk team assesses exposure to different ESG risks, such as poor ESG ratings. Finally, the responsible investment team provide further input and oversight on ESG issues.

We conduct in depth due diligence on all investments, including an assessment of a company's ESG profile. We use a combination of external and internal research and data to support our research. For example, we use data published by companies, sourced through MSCI to build our ESG Materiality Rating model; and we use ISS data to help us assess good governance.

While there may be errors or gaps in ESG data, we have a stringent data quality control checks in place to minimise them, and always supplement data with our own research and analysis.

b) No sustainable investment objective

The fund promotes environmental and social characteristics but does not have a sustainable investment objective

c) Environmental or social characteristics of the financial product

The fund promotes environmental and social characteristics by integrating the following responsible investment measures into the investment decision-making process:

A Positive ESG tilt: We give companies a rating using our ESG Materiality Rating model. This indicates how well they are managing ESG risks and opportunities. Our approach favours companies with strong ratings, so the fund shows a more positive ESG materiality score than the benchmark, over rolling 12-month periods.

Excluding companies which do not promote environmental or social characteristics: We exclude controversial weapons firmwide. This fund also avoids companies in breach of international standards and principles such as the United Nations Global Compact and the United Nations Guiding Principles on Business and Human Rights.

d) Investment strategy

We favour companies which score strongly using our ESG Materiality Rating model so that the fund model is positively tilted compared to the benchmark. We may invest in companies with poor ESG scores, if we see room for improvement. We monitor the fund's ESG materiality score and the adherence to exclusions daily.

The fund excludes companies which breach international standards and principles. Exclusions are monitored before and after each investment to ensure the fund remains in compliance.

Engaging for improvement in ESG practices: We aim to influence companies' approach to ESG risks and ESG practices, in areas such as carbon emissions, board independence and diversity.

We conduct a pre-investment good governance assessment and ongoing post-investment review of governance practices on all investee companies. We use third-party data to assess a company's governance practices and supplement this with our fundamental research.

Pre-investment: We assess all companies before investment. We may engage with a company to better understand or to encourage improvements relating to any flagged issues. If, however, we conclude that the company demonstrates poor governance practices, we will not invest in its securities.

Post-investment: Companies are monitored on an ongoing basis to confirm that there has been no worsening of their governance practices. If any issues are flagged, we may engage with the company to better understand the issue as part of our good governance assessment. However, where it is considered that the company no longer demonstrates good governance practices, the securities will be divested.

We have developed a data-driven model which flags poor practices and controversies relating to the four pillars of good governance outlined by SFDR to inform our assessment and monitoring of investee companies. The quantitative models to measure governance characteristics cover:

1. Board structure: including board and key committee composition, diversity and inclusion, and commitments and policies.
2. Compensation: including pay-for-performance, use of equity, non-executive pay, and termination practices.
3. Employee relations: including compliance with labour standards, such as child labour, discrimination, and health and safety.
4. Tax quality: including tax reporting and corporate tax gap.

Qualitative reviews assessing the practices of a company will take place when a governance issue is flagged by the data-driven model. These reviews will also take place when data is limited.

e) Proportion of investments

At least 75% of the equity investments are be scored by our ESG Materiality Rating model.

The exclusions policy covers all shares held so we maintain minimum environmental and social safeguards even for companies with a poor ESG materiality rating.

Cash and cash-equivalent assets and derivatives for hedging purposes (instruments for reducing risk) are not counted when calculating the environmental and social profile of the fund.

f) Monitoring of environmental or social characteristics

Monitoring is carried out by the investment teams and by independent oversight groups:

- All investment team members have continual access to all fund data which is available for discussion in team meetings
- The Investment Consultancy & Oversight Group monitors the investment process to make sure portfolio managers adhere to their stated philosophy and process, including ESG elements
- The mandate compliance team makes sure the fund is managed within its investment objectives and adheres to the restrictions
- The independent risk team monitors the fund daily and holds quarterly meetings with the managers. They assess exposure to sustainability risk (e.g. poor ESG ratings, controversies or contentious activities) and project different scenarios to quantify these risks
- The responsible investment team provide further input and insight into stock selection

g) Methodologies

We monitor the fund's ESG materiality rating model compared to the benchmark. The fund must have a positive tilt over rolling 12-month periods.

The model uses public data and builds on the SASB (Sustainability Accounting Standards Board) materiality framework. It assesses daily how material ESG risks and opportunities are managed.

We use MSCI data to monitor exposure to breaches and potential breaches of the United Nations Global Compact and the United Nations Guiding Principles on Business and Human Rights.

Our IT systems prevent investment in excluded companies

h) Data sources and processing

Data sources for environmental or social characteristics include company data incorporated into our ESG Materiality Rating model, ISS and MSCI. We supplement this data with our own research and analysis.

Our data quality framework includes validation checks and governance checks on models. Changes are subject to appropriate controls.

Data is processed through our operational framework. If data is unavailable, we use our own qualitative and quantitative assessment.

We have access to thousands of distinct ESG datapoints, so cannot define the proportion of estimated data we use in our research.

i) Limitations to methodologies and data

We use external and internal research and data to support the strategy.

We assess data providers based on coverage, quality of their methodology, and we spot-check data quality. Errors may occur, so suppliers aim to address this via:

- Validation quality assurance
- Disclosure detection checks
- Checks for large variations or anomalies
- Data validation and constraints implemented on data input

We supplement external data through internal research and due diligence.

j) Due diligence

We conduct in depth due diligence on investments.

Each stock goes through a rigorous review process and concerns are raised and discussed in detail.

A detailed research note summarising all the analyst's findings is distributed before review meetings to enable informed active and open debate. This includes an ESG assessment, tailored to individual industries.

We use external sources and third-party brokers for more "quantitative" data, such as the company's exposure to different markets. Broker research is a useful supplement to our in-house work. It helps us by providing guidance on market consensus forecasts; it helps us identify differences between in-house expectations and the general market view, which highlights investment opportunities.

Meeting a company's management gives us an edge in decision-making and we typically have some form of contact before making an investment. These meetings help us gather management views on industry developments, competitors, suppliers and customers as well as discuss strategy, financial factors, and corporate governance. This can prompt us to analyse investment opportunities in suppliers or clients.

Risk management is embedded into all stages of our process. Before buying stock or adding to positions, fund managers consider the impact on the existing fund, including changes to sector weight, changes to style, stock correlations and the risk budget. Risk is continuously monitored by an independent team, who produce daily reports covering a variety of metrics.

k) Engagement policies

Our Responsible Investment Engagement Policy outlines our approach to engagement, themes covered, and how we prioritise and escalate.

We aim for constructive dialogue to support long-term returns by mitigating risk, capitalising on ESG opportunities, and reducing negative impacts. We aim to play a part in a more sustainable and resilient global economy, encouraging improved ESG practices. This can drive positive impacts for the environment and society, in line with the United Nations Sustainable Development Goals (SDGs).

When we engage, we focus on financial performance, sustainability risks and opportunities, operational excellence, capital allocation policies and managerial incentives.

We will agree and set engagement objectives and timelines and use escalation strategies where appropriate, if companies do not demonstrate progress on matters that we believe are in our clients' best long-term interests. In considering engagement escalation strategies, we will make a case-by-case assessment of progress against our objectives and how companies respond to our engagement. We have at our disposal several different options for escalation, which include; Collaborative engagement, Public statements, Filing shareholder resolutions, AGMs' Proxy Voting and partial or complete divestment.

I) Designated reference benchmark

The fund does not have a designated reference benchmark that is used to measure whether it attains the environmental and/or social characteristics that the fund promotes

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