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ESG glossary

Mandate

Sustainable investment - An investment that is considered sustainable. Such an approach normally selects and includes holdings on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcomes. This data is hierarchical. For an investment to be considered 'sustainable' it must satisfy one or more of the below 'mandate' categories.

ESG incorporation - These strategies may use positive screens to make their investment choices, tacitly removing companies that do not meet their standards in relevant environmental, social and/or governance areas. ESG incorporation often includes best-in-class strategies where managers select investments based on stronger ESG performance relative to peers as well as other considerations of ESG risks and rewards alongside traditional financial research.

ESG engagement - Strategies that use shareholder engagement, including raising resolutions, active proxy voting and direct company engagement to pursue ESG goals with invested companies.

Gender & diversity - Strategies that seek to make a measurable impact alongside financial return through examination of gender dynamics to better inform investment decisions and/or to intentionally and measurably address gender disparity by investing in companies with a record of measurement and improvement of gender and diversity or related initiatives.

Community development - Strategies that seek to make a measurable impact alongside financial return through their investments in companies with positive records in community development and engagement. These strategies may accomplish this through seeking to affect positively economic development, local institutions or the availability of resources in target communities.

Low carbon / fossil fuel free - Strategies that seek to make a measurable impact alongside financial return through their investments in companies with small or decreasing carbon footprints, low carbon risk or the active disuse/divestment of fossil fuels.

Environmental - Strategies that seek to make a measurable impact alongside financial return by investing in companies with a positive environmental record or are specifically involved in industries that positively impact the environment.

Other impact themes - Strategies that seek to make a measurable impact alongside financial return through their investments in companies with other specifically stated or general impact themes that do not fall within the other impact categories.

Renewable energy - Strategies that intend to invest in companies involved in the renewable energy sector.

Water focused - Strategies that intend to invest in companies with clean water practices.

General environmental sector - Strategies that invest in other environmental industries without a primary focus on renewable energy or water.

ESG Review

ESG Reviews - Defaqto's ESG Reviews consider the ESG policy of a fund as well as evidence as to whether or not the fund is following that policy. Other aspects looked at in Defaqto's ESG Reviews include the fund's levels of ESG integration, the manager's voting and engagement policies and records, the team and wider ESG resources behind the fund as well as the fund's alignment to the UN Sustainable Development Goals.

Carbon

Low carbon designation - Identifies low carbon funds, taking into account fossil fuel involvement and the expected ability of each company in the portfolio to adapt to a low carbon economy. To receive the designation, a fund must meet two criteria:

- A 12-month trailing average Morningstar Portfolio Carbon Risk Score below 10; such portfolios are considered to have low carbon risk
- A 12-month trailing average exposure to fossil fuels of less than 7% of assets, which is approximately a 33% underweighting to the global equity universe; a portfolio's fossil-fuel exposure is a key driver of its overall carbon intensity.

Carbon risk classification - Identifies the level of risk associated with transition to a low carbon economy. Risk in this context is referring to expected ability of each company in the portfolio to adapt to a low carbon economy and hence the likelihood of the company ending up with 'stranded assets' and the associated negative financial implications of these.

To receive a Morningstar Portfolio Carbon Risk Score, at least 67% of portfolio assets must have a carbon-risk rating from Sustainalytics. The percentage of assets covered is rescaled to 100% before calculating the score. Sustainalytics' assessment of a company's carbon risk is based on the firm's exposure to carbon-related risks throughout the value chain; Sustainalytics' view on the degree to which the firm's activities and products will be targeted for alignment with a low-carbon economy; and the firm's ability to manage, and the quality of its management approach, to reduce carbon risks.

Coverage

Exposure – coverage - The percentage of the fund that the ESG data covers, by assets under management.

ESG analysis is not available in certain scenarios, for example where Morningstar have not been able to obtain Sustainalytics ESG research for an underlying company. 'Exposure - coverage' allows users to identify the coverage in relation to the percentage of the fund that has Sustainalytics company ESG research and to specify a minimum coverage.

Environmental

Fossil fuel exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from thermal coal extraction, thermal coal power generation, oil and gas production and oil and gas power generation
- Companies that derive at least 50% of their revenue from oil and gas products & services.

Genetically modified organism exposure - Illustrates the exposure to:
- Companies that derive at least 0.1% of revenue from growing genetically modified crops
- Companies that derive at least 5% of revenue from the development and/or cultivation of genetically modified seeds and/or plants.

Nuclear power exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from producing nuclear power, including utilities that own or operate nuclear power generators

- Companies that derive at least 10% of revenue from providing products/services that support the nuclear power industry, such as designing and constructing nuclear power plants, manufacturing specialised parts for use in nuclear power plants or companies involved in uranium mining exploration
- Companies that derive at least 10% of revenue from distributing electricity generated from nuclear power.

Oil Sands extraction exposure - Illustrates the exposure to:
- Companies that derive at least 0.1% of revenue from the extraction of oil sands.

(Oil sands are a mixture of clay, sand, water and bitumen that are mined and refined into oil).

Palm oil exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from the production and/or distribution of palm oil.

Pesticides exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from manufacturing pesticides, including herbicides, fungicides or insecticides
- Companies that derive at least 50% or more of their revenues from the distribution and/or retail sale of pesticides.

Thermal coal extraction exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from thermal coal mining and exploration.

Thermal coal power generation exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from coal-based power generation, including utilities that own/operate coal-fired power plants.

Social

Adult entertainment exposure - Illustrates the exposure to:
- Companies that derive at least 50% of revenue from the production of adult entertainment and/or own/operate adult entertainment establishments, including adult entertainment movies and television programmes, magazines and adult websites
- Companies that derive at least 50% of revenue from the distribution of adult entertainment materials.

Alcohol exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from manufacturing alcoholic beverages
- Companies that derive at least 50% of revenue from suppling alcohol-related products/services to alcoholic beverage manufacturers, including specialised equipment or raw materials to produce alcohol
- Companies that derive at least 25% of revenue from the distribution and/or retail sale of alcoholic beverages.

Animal testing exposure - Illustrates the exposure to:
- Companies that conduct animal testing for pharmaceutical products, medical devices, biotechnology or nonpharmaceutical products.

Controversial weapons exposure - Illustrates the exposure to:
- Companies involved in core weapon system or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon
- Companies providing components/services for the core weapon system, which are either not

considered tailor-made or not essential to the lethal use of the weapon.

(Controversial weapons consist of antipersonnel mines, biological and chemical weapons, cluster weapons, depleted uranium ammunition, nuclear weapons and white phosphorus weapons).

Fur & speciality leather exposure - Illustrates the exposure to:
- Companies that derive at least 25% of revenue or where at least 50% of production is from manufacturing products made from fur or specialty leather, including products made from animals solely hunted or bred for their skin and fur
- Companies that derive at least 10% of revenue from the distribution and/or retail sale of products made from fur or specialty leather.

Gambling exposure - Illustrates the exposure to:
- Companies that derive at least 5% from owning and/or operating a gambling establishment, such as a casino, racetrack or online gambling
- Companies that derive at least 5% from manufacturing specialised equipment used exclusively for gambling, including slot machines, roulette wheels and lottery terminals
- Companies that derive at least 5% from supporting products/services to gambling operations, such as gambling technology or credit lines to casinos.

Military contracting exposure - Illustrates the exposure to:
- Companies that derive at least 5% of revenue from manufacturing military weapon systems and/or integral, tailor-made components of these weapons
- Companies that derive at least 5% of revenue from providing tailor-made products and/or services that support military weapons
- Companies that derive at least 25% of revenue from providing non-weapons related tailor-made products and/or services to the military or defence industry.

(Military contracting includes companies involved in contracts related to military weapons, weapon systems, secondary components of weapons or weapon related services).

Small arms exposure - Illustrates the exposure to:
- Companies that derive at least 0.1% of revenue from manufacturing and selling small arms to civilian customers or military/law enforcement
- Companies that derive at least 0.1% of revenue from manufacturing and selling key components of small arms
- Companies that derive at least 5% of revenue from retail and/or distribution of small arms and/or key components.

Tobacco exposure - Illustrates the exposure to:
- Companies that derive at least 10% of revenue from supplying tobacco-related products/services, such as pipes or rolling papers
- Companies that derive at least 10% of revenue from distribution and/or retail sales of tobacco products/services.