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Aquila Guide to Environmental, Social and Governance Factors when Investing

What does sustainable investment mean?

Sustainable investing describes strategies that invest on the basis of fulfilling and/or delivering on specific sustainability outcomes. There are many terms used to describe sustainable investing, such as responsible, socially responsible, green, ethical and impact investing.

Whatever term is used, there is no denying that many institutions and individuals now use Environmental, Social and Governance (ESG) factors as important considerations in the investment process.

Sustainability focus - Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcomes. Investments are chosen on the grounds of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services).

ESG integration - ESG integration alone does not prohibit any investments. Such strategies could invest in any business, sector or geography as long as the ESG risks of such investments are identified and considered. The precise ways in which ESG considerations will be factored into investment analysis and in the investment decision-making process will differ in practice between different investment funds, mandates and strategies.

Traditional ethical investing, for example, typically involves excluding companies from specific '**sin**' (exclusion) sectors such as alcohol and tobacco. **Impact investing**, on the other hand, goes further and involves investing to make a positive social and environmental impact.

Environmental issues - How a company is addressing issues such as climate change, resource depletion, waste, pollution and deforestation.

Social issues - A company's policies and record in relation to human rights, modern slavery, child labour, working conditions and employee relations.

G**overnance issues** - A company's record in relation to bribery and corruption, executive pay, board diversity and structure, political lobbying/donations and tax strategy.

Stewardship - Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients leading to sustainable benefits for the economy, the environment and society. In can also be referred to as '**corporate engagement**', '**shareholder action**' or '**active ownership'**. Shareholder power is used to influence corporate behaviour through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.

Exclusions - Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues. They may be applied at the following levels: sector; business activity, products or revenue stream; company; jurisdictions/ countries.

Impact investing - Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

ESG standards and practices. A number of principles and standards act as a common reference point for investment managers adopting a responsible approach. A selection of these are detailed below. Ensuring that an asset manager has signed up to some of these codes or standards could form part of the due diligence process when selecting a responsible fund manager on behalf of a client.

The UN's Sustainable Development Goals (SDGs) Launched in September 2015, these 17 high-level goals form a blueprint to achieve a better and more sustainable future for all, The aim is to achieve them all by 2030.

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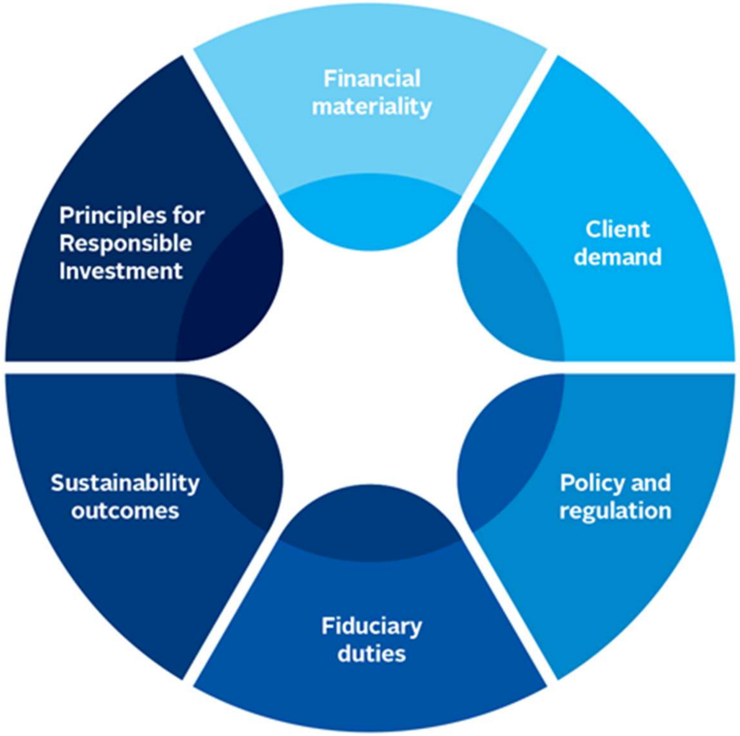
The UN-supported Principles for Responsible Investment (PRI) is regarded as the world's leading proponent of sustainable investment. It encourages investors to use sustainable investment to enhance returns and better manage risks. It has issued a set of voluntary and aspirational investment principles that all signatories must commit to.



The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The UK Stewardship Code

The UK Stewardship Code sets high expectations of those investing money on behalf of UK savers. It consists of 12 principles for asset managers and asset owners. It establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.