



# Glossary

Welcome to our comprehensive responsible investment glossary. We're aware the investment world is full of specialised terminology, so hopefully you'll find the following key terms and concepts will enable you to navigate the world of Environmental, Social, and Governance (ESG) more easily.

**Active ownership (Stewardship):** Investors actively use voting and engagement to influence the management of companies with respect to environmental, social or governance factors. Similar principles are also used by investors in other asset classes such as fixed income, private equity or property. This will also involve active participation in industry and peer group collaborative initiatives.

**Annual General Meeting (AGM):** An annual general meeting is a requirement for all publicly listed companies. This meeting, held annually, provides an opportunity for shareholders to vote on company decisions either in person or by proxy.

**American Depositary Receipts (ADRs):** An ADR is a negotiable certificate that evidences an ownership interest in American Depositary Shares. ADRs allow U.S. investors to invest in non-U.S. companies and give non-U.S. companies easier access to the U.S. capital markets.

Source: US Securities and Exchange Commission

**Carbon footprint:** The total amount of greenhouse gases (including carbon dioxide and methane) that are generated by our actions.

**Carbon pricing:** Operates by placing a fee on emitting and/or offering an incentive for emitting fewer carbon emissions. This may refer to the rate of a carbon tax, or the price of emissions permits.

Carbon pricing has emerged as a key policy mechanism to curb and mitigate the dangerous impacts of greenhouse gas pollution and drive investments towards cleaner, more efficient alternatives.

Source: CDP

**Circular economy:** The model of production and consumption which involves sharing, leasing,

reusing, repairing, refurbishing, and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended.

**Clawback (and malus):** Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient:

- forfeits all or part of a bonus or long-term incentive award before it has vested and been paid – this is called ‘malus’ and/or
- pays back sums already paid – this is called ‘clawback’

**Climate change:** This refers to a change in the state of the climate that can be identified (e.g. by using statistical tests) and that persists for an extended period, typically decades or longer. Climate change may be due to natural internal processes or external forcings such as changes of the solar cycles, volcanic eruptions, and persistent anthropogenic (environmental change caused or influenced by people directly or indirectly) changes in the composition of the atmosphere or in land use.

This is one of the three Quilter responsible investment priorities.

Source: Intergovernmental Panel on Climate Change (IPCC)

**COP:** An acronym for ‘Conference of the Parties’ that can be used to refer to the meetings of countries as part of the United Nations (UN) Framework Convention on Climate Change (UNFCCC).

**Disapplication of pre-emption rights:** Existing shareholders do not have first refusal on new shares and therefore their holdings will be diluted.

**Engagement:** Investors enter into purposeful dialogue with companies, funds, industry bodies, and governments to discuss environmental, social, and governance related issues in order to gain more information or to encourage and achieve change. This may be in collaboration with other investors.

**ESG (Environmental, Social, and Governance):** The risks and opportunities related to ESG issues.

**Environmental** - relating to the environment. Examples include resource, water and land use, biodiversity, pollution, atmospheric emissions, climate change, and waste.

**Social** - relating to the relationship between companies and people, such as their employees, suppliers, customers, and communities. Examples of social issues of interest to investors include health and safety, labour standards, supply-chain management, and consumer protection.

**Governance** - relating to the governance of an organisation, also referred to as corporate governance. Examples include board composition, executive remuneration, internal controls, and balancing the interests of all stakeholders.

**ESG integration:** Analysing ESG data to better inform investment decisions.

**ESG screening:** Ethical and values-oriented investment based on client requirements is incorporated on an individual client basis within the Discretionary Portfolio Service. This is informed by their specific ethical preferences and values and will vary from client to client and will focus on sectors, industries, or individual companies.

**Executive director:** These are directors who act perform managerial duties within a business. They are held to account by the non-executive directors.

**Global Depositary Receipt (GDR):** A Global Depositary Receipt (GDR) is a negotiable certificate held in a country's local banks representing title to a certain number of foreign shares. Non-domestic companies wishing to list on the local exchange must offer GDRs.

Source: Morningstar

**Green bonds:** Differentiated from a regular bond by being "labelled" i.e., designated as "green" by the issuer or another entity, whereby a commitment is made to use the proceeds of green bonds (i.e., the principal) in a transparent manner, and exclusively to finance or refinance "green" projects, assets or business activities with an environmental benefit.

**Greenhouse gases (GHG):** Greenhouse gases (GHGs) are carbon dioxide, methane, nitrous

oxide, and ozone. They account for a tiny fraction of the atmosphere, but they are a critical part of the overall atmosphere composition as they play a significant role in trapping the earth's heat and warming our planet. Since industrialisation, GHG concentrations have rocketed, warming the planet at unprecedented rates. The major cause of the increase in carbon emissions has been the use of fossil fuels in producing energy.

**Greenwashing:** Greenwashing describes misleading or unsubstantiated claims made by businesses including investment firms about the environmental performance of their products or activities.

**Human rights:** Human rights are the rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination.

This is one of the three Quilter responsible investment priorities.

**Just transition:** Just transition is a framework to ensure the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers, or consumers.

**Lead independent director:** The role of a lead independent director is to serve as an intermediary between the independent directors, chairman and chief executive officer. Where a company maintains a combined Chief Executive Officer (CEO)/chair position, a lead independent director can serve as an independent counterweight to an executive (non-independent) chair.

**Long-term incentive plan (LTIP):** A type of executive compensation that pays out usually in the form of shares. The reward is linked to performance metrics and the pay-out will be calibrated in line with the achievement of these. The quantum of the pay-out is linked to multiples of salary.

**Natural capital:** Natural capital is stock of renewable and non-renewable natural resources

(e.g., plants, animals, air, water, soils, or minerals) that combine to yield a flow of benefits and ecosystem services to society.

This is one of the three Quilter responsible investment priorities.

**NEDs (Non-Executive Directors):** These are directors who act in advisory capacity only, however they should hold the executive directors to account. They are not employees of the company; however, they are paid a fee for their services.

**Net zero:** Achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon).

Source: IPCC

**Over-boarded:** Where non-executive directors are deemed to have a potentially excessive number of non-executive positions and the concern is whether they have sufficient time to contribute to the board of a company.

**Paris Agreement on climate change:** The Paris Agreement was a global agreement to strengthen the global response to climate change. It was agreed in 2015 that the global temperature rise this century should be kept to well below 2°C above pre-industrial levels and ideally below 1.5°C.

**Power of Attorney:** An instrument used to bestow authority to act on someone's behalf.

**Pre-emption rights:** These give shareholders first refusal when a company is issuing shares.

**Premium listing:** This was previously known as a primary listing for the London Stock Exchange. A company with a premium listing is expected to meet the UK's highest standards of regulation and corporate governance.

**Principles of Responsible Investment (PRI):** The world's leading voluntary initiative on responsible investment. Launched in 2006 it now has thousands of investor signatories globally who commit to adopt six principles for responsible investment and report against these annually. Although voluntary and investor-led the PRI is

supported by the United Nations.

**Proxy voting:** Where a shareholder delegates their voting rights to be exercised on their behalf. Often voting rights are delegated to investment managers who exercise votes on investors' behalf. Votes are used to express shareholder opinions to company management.

**Responsible investment:** A strategy and practice to incorporate ESG factors in investment decisions and active ownership.

Source: PRI

**Restricted share plan (RSUs):** Some companies (and indeed investors) prefer the use of these plans as opposed to LTIPs (see above). The idea is that this type of plan encourages long-term behaviours and does not have the same use of targets that you would see within an LTIP. Therefore, it is expected that companies which adopt such an approach award a lower amount than would be seen under an LTIP which has a variable structure dependent on performance outcomes.

**Share blocking:** This refers to a rule prohibiting shareowners from trading or loaning shares that they intend to vote for some period of time leading up to, and often following, the company meeting date.

**Short-term incentive plan (STIP):** A type of executive compensation scheme that seeks to align a proportion of overall executive pay with a company's short-term strategy. STIPs have a performance period of one year or less and are typically paid in cash but may also be paid in shares.

**SID (Senior Independent Director):** The SID position is taken by an independent NED. The SID often plays a critical role in ensuring communication channels are open between the board and shareholders.

**Stranded assets:** Stranded assets describe the assets on corporate balance sheets that could rapidly lose their value because of forced write-offs. An example of this would be fossil fuel reserves that remain unburned.

**Stewardship:** The responsible allocation, management, and oversight of capital to create long-term value for investors and beneficiaries leading to sustainable benefits for the economy, the environment, and society.

Source: Financial Reporting Council (FRC)

**Sustainability focused investment:** Sustainability-focused investment is an investment approach that selects and includes investments on the basis that they fulfil certain sustainability criteria and/or deliver on specific and measurable sustainability outcomes. Investments are selected based upon the sustainable solutions that they provide, such as what a company produces or the services it delivers. Consideration is often also given to how the company or asset delivers those products and services. There are different methods for assessing the sustainability characteristics of an investment, many of which reference an established framework such as the UN Sustainable Development Goals.

**Task Force on Climate-related Financial Disclosures (TCFD):** The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.

**Tender – bid waiver:** This is the right to waive the requirement to make a general offer under Rule 9 of the Takeover Code, resulting in a request to procure a good or service to take place without public bidding.

**The Shareholder Rights Directive II (SRD II):** Establishes rules promoting the exercise of shareholder rights at general meetings of companies with registered offices in the EU and the shares of which are admitted to trading on a regulated market in the EU. The 2017 revision (Directive (EU) 2017/828) aims to encourage long-term shareholder engagement to ensure that decisions are made for the long-term stability of a company and take into account environmental and social issues. A notable requirement within this is for asset managers to report on their voting activity and shareholder engagement on an annual basis.

Source: EU Directive

**Task Force on Nature-related Financial Disclosures (TNFD):** TNFD was formed to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature related risks. The ultimate aim is to support a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes.

**Total shareholder return (TSR):** Is a measure of the performance of a company's shares; it combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

#### **UN Sustainable Development Goals (SDGs):**

The 2030 Agenda for Sustainable Development adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 UN Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests.

Source: United Nations

**Voting Rights:** Shares in listed companies typically come with specific voting rights which can be exercised at the company's annual general meeting or extraordinary meetings. They can be used as a means of expressing the opinion of the shareholder about how the company is being managed. This is also referred to as proxy voting when voting rights are delegated, for example to investment managers who exercise voting rights on an investor's behalf.

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