

The A to Z for ESG

A common issue cited with sustainable investing is a lack of clarity over the language used in this field. Our glossary is designed to help build a more common understanding of some of the more frequently used terms.

A

Active ownership – a form of stewardship whereby shareholder power is used to influence corporate behaviour through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting guided by comprehensive Environmental Social Governance (ESG) guidelines.

B

Best in class – a ‘sustainability focus’ investment approach whereby investments are included based on certain sustainability criteria to focus exposure on sector-leading companies. This can vary from selecting amongst the best-performing companies (e.g. the lowest carbon/most energy efficient energy producers) to excluding the worst-performing companies relative to peers.

C

Carbon credit – a permit that allows the holder to emit one tonne of carbon dioxide or the equivalent amount of another greenhouse gas. If the holder exceeds the cap, they have to buy extra credits or are fined. If the permit is not used in full, the balance can be traded at a profit. In this way, the holder is incentivised to reduce emissions. The plan is to reduce the number of carbon credits over time.

Carbon footprint – a measure of the total amount of greenhouse gasses – primarily carbon dioxide – released into the atmosphere as a result of the activities of an individual, company or other entity.

Carbon neutrality – having a net zero carbon footprint (no net release of carbon dioxide or other greenhouse gases into the atmosphere) through carbon offsetting or eliminating carbon emissions altogether.

Carbon offsetting – removing or offsetting an amount of carbon omitted by a certain activity. This can be through the purchase of carbon credits or through other actions such as planting trees.

Carbon pricing – the cost applied to carbon pollution in order to encourage polluters to lower the amount of greenhouse gases they emit into the atmosphere. This cost may be levied in the form of a carbon tax or through the requirement to purchase a permit through the ‘cap-and-trade’ system (see carbon credit above).

Clean energy – energy that is from a non-polluting source, such as solar, wind and wave power.

Climate Action 100+ – an initiative taken by the investment industry to ensure the world’s largest corporate greenhouse gas emitters take the necessary action on climate change. Signatories engage with companies to curb emissions, improve governance and strengthen climate-related financial disclosures.

Climate change – a term commonly used to describe significant changes in the measures of climate, such as temperature, rainfall, or wind, that last for an extended period of time.

Climate risks – risks linked to climate change that have the potential to affect companies, industries and wider economies. As well as physical risks, these include potential regulatory action, litigation and competitive and reputational risks that can be associated with climate change.

Corporate engagement – using shareholder power to influence corporate behaviour through direct engagement with a company.

Corporate governance – the rules, practices, and processes used to direct and manage a company. The main force influencing corporate governance is a company’s board of directors, although the board can be influenced by, for example, shareholders, creditors, customers and suppliers.

D

Divestment – the selling of shares in companies based on ESG concerns. This is often considered the ultimate shareholder sanction if a company's management fails to respond to other pressures to improve its ESG credentials (such as engagement).

E

Environmental factors – the environmental issues considered by responsible investors when analysing investments. Examples include climate change, resource depletion, waste, pollution and deforestation.

Environmental, Social and Governance (ESG) – the three central factors/criteria used by responsible investors to screen and select companies and other investments for their portfolios. Sometimes E and S are substituted for Ethical and Sustainable.

ESG integration – the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions. 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 taken into account.

Ethical investing – an investment approach that excludes investments on the basis of ethical, values-based or religious criteria, for example, gambling, alcohol, or pork.

Exclusions – exclusions prohibit certain investments from a firm, fund or portfolio. They may be applied on a variety of issues, including to align with client expectations, and at different levels (sector; business activity, products or revenue stream; company; jurisdictions/countries).

G

Governance factors – the corporate governance issues considered by responsible investors when analysing investments. For example, a company may be assessed on its policies/approach to bribery and corruption, executive pay, board diversity and structure, political lobbying/donations and tax strategy.

Green bond – a fixed income instrument that is earmarked to raise funds for climate and environmental projects.

Green investing – an approach that considers investments based on their environmental credentials.

Greenwashing – falsely giving the impression that a company's products and services provide greater environmental or 'green' benefits than is actually the case.

I

Impact investing – investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Examples include social bond funds, private impact investing and SDG impact funds.

M

Modern slavery – the recruitment, movement, harbouring or receiving of people through the use of force, coercion, abuse of vulnerability, deception or other means for the purpose of exploitation.

N

Negative screening – an approach which specifically excludes companies based on their involvement in undesirable activities.

Norms-based exclusions – an approach that excludes investments on the basis of not complying with international standards of conduct, for example, the UN Human Rights Declaration.



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P

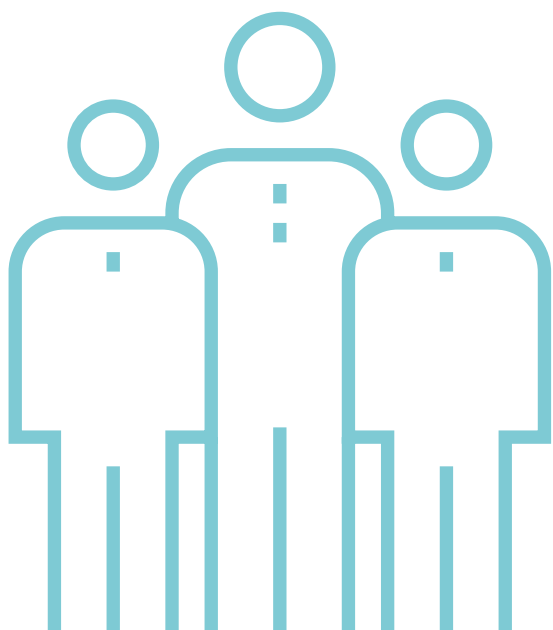
Paris Agreement – the international treaty that came into force in November 2016. The agreement is to limit the global rise in temperature from pre-industrial levels to below 2°C this century and ideally below 1.5°C.

Positive tilt – a ‘sustainability focus’ investment approach where overweight positions are taken in stocks if they fulfil certain sustainability criteria and/or deliver on a specific and measurable sustainability outcome(s), relative to a benchmark (for example, half the carbon intensity of the benchmark).

Positive screening – an approach which specifically filters companies based on their involvement in beneficial activities.

Principles for Responsible Investment (PRI) – a UN-supported body regarded as the world’s leading proponent of responsible investment. It encourages investors to use responsible 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.

Private impact investing – investing directly in unlisted projects, companies or initiatives that have the intention to generate positive, measurable social and environmental impact alongside a financial return, for example, one or more of the UN Sustainable Development Goals (an ‘SDG fund’).



R

Renewable energy – energy from a source that is not depleted, such as solar, wind and wave power.

Responsible investing – commonly used to describe a range of ESG investing strategies, such as ethical, exclusionary, impact, socially-responsible investing and ESG integration.

S

Screening – an approach which specifically filters companies based on their involvement in either beneficial (positive) or undesirable (negative) activities.

SDG impact funds – funds where impact is measured against the UN Sustainable Development Goals (SDGs). This can be achieved, for example, through listed equities, a social bond fund or private impact investing.

Shareholder advocacy – a form of stewardship whereby shareholder power is used to influence corporate behaviour through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting.

Sin stocks or sectors – companies or a whole industry sector considered to be involved in unethical or immoral activities. Common examples include those involved in armaments, tobacco, alcohol, gambling and adult entertainment.

Social bonds – a fixed income instrument that is earmarked to raise funds for projects dedicated to good social causes.

Social factors – the social issues considered by responsible investors when analysing investments. For example, a company may be assessed on its policies/approach to human rights, modern slavery, child labour, working conditions and employee relations.

Socially responsible investment (SRI) – another term for responsible, sustainable or green investing, whereby ESG factors and values are integrated into the investment process.

Stewardship – 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. Typically, 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.

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. Examples include sustainability-themed investing, best in class and positive tilt.

Sustainability-themed investing – a ‘sustainability focus’ approach where investments are selected on the basis of a sustainability theme(s) such as climate change mitigation, pollution prevention, sustainability solutions and approaches that relate to one or more of the UN Sustainable Development Goals (SDGs).

U

UK Stewardship Code – a code that sets high expectations of those investing money on behalf of UK savers. In particular, the code 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.

UN Social Development Goals (SDGs) – 17 high-level goals forming the blueprint to achieve a better and more sustainable future for all. The aim is to achieve them all by 2030:

- **1 – No poverty:** End poverty in all its forms everywhere.
- **2 – Zero hunger:** To end hunger, achieve food security and improved nutrition and promote sustainable agriculture.
- **3 – Good health and wellbeing:** Ensure healthy lives and promote well-being for everyone at all ages.
- **4 – Quality education:** Ensure inclusive and quality education for all and promote lifelong learning.
- **5 – Gender equality:** Achieve gender equality and empower all women and girls.
- **6 – Clean water and sanitation:** Ensure access to water and sanitation for all.



- **7 – Affordable and clean energy:** Ensure access to affordable, reliable, sustainable and modern energy.
- **8 – Decent work and economic growth:** Promote inclusive and sustainable economic growth, employment and decent work for all.
- **9 – Industry, innovation and infrastructure:** Build resilient infrastructure, promote sustainable industrialisation and foster innovation.
- **10 – Reduced inequalities:** Reduce inequality within and among countries.
- **11 – Sustainable cities and communities:** Make cities inclusive, safe, resilient and sustainable.
- **12 – Responsible consumption and production:** Ensure sustainable consumption and production patterns.
- **13 – Climate action:** Take urgent action to combat climate change and its impacts.
- **14 – Life below water:** Conserve and sustainably use the oceans, seas and marine resources.
- **15 – Life on land:** Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss.
- **16 – Peace, justice and strong institutions:** Promote just, peaceful and inclusive societies.
- **17 – Partnerships for the goals:** Revitalise the global partnership for sustainable development.

V

Values-based investing – an investment approach that excludes investments on the basis of ethical, values-based or religious criteria, for example, gambling, alcohol, or pork.

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As interest and assets in responsibly-managed investments continue to grow, FundsNetwork is committed to providing advisers with all the information they need on this area of investing. This ranges from helping advisers identify appropriate solutions for their clients through the provision of research and tools as well as educational guides, client-facing materials and fund partner insights.



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