

# A glossary of sustainable investing terms

# The A to Z for ESG

The world of sustainable investing is full of jargon – ethical and impact investing, carbon neutrality and credits, negative and positive screening are just a few examples. It's no wonder that clients can be confused by the vocabulary. Our glossary is designed to help you and your clients 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.

**Animal testing policy** – funds or investments that avoid companies that are involved in testing their products on animals.

**Animal welfare policy** – funds or investments with policies that require specific animal welfare standards to be met. These may reference well-known welfare standards (3Rs – Replace, Reduce, Refine) or certification schemes.

**Armaments policy** – funds or investments that avoid companies that manufacture products intended specifically for military use. Fund strategies do vary though, particularly with regard to non-strategic military products.

## B

**Best in class** – an 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 or most energy efficient energy producers) to excluding the worst-performing companies relative to peers.

**Biodiversity policy** – funds or investments that have a written biodiversity policy or theme aimed at encouraging and improving environmental protection and safeguarding the natural world (sometimes referred to as the preservation or enhancement of 'natural capital').

## 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.

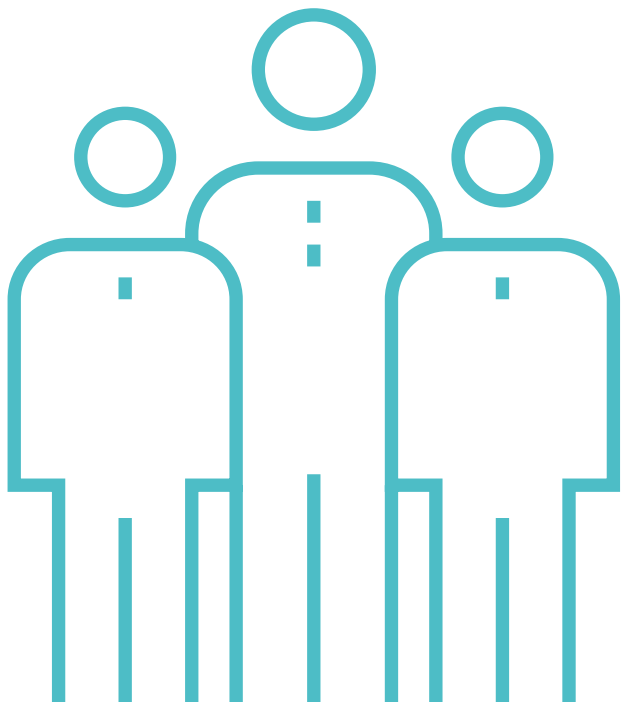
**Carbon offsetting** – removing or offsetting an amount of carbon omitted by a certain activity. This can be through the purchase of carbon credits or through other actions such as planting trees.

**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).

**Child labour policy** – funds or investments that have policies in place to ensure they do not invest in companies that employ children.

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

**Clean energy and renewables policy** – funds that invest in companies in the clean energy and renewable energy sectors. Fund strategies vary and, in particular, the proportion of investment in these areas may vary significantly.



**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.

**Coal, oil or gas majors policy** – funds or investments that avoid investing in major coal, oil or gas (extraction) companies. Funds vary – some may exclude all companies that extract oil. Others may have exposure to oil extraction via more diversified energy companies.

**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

**Deforestation policy** – funds or investments that have policies in place explaining that they avoid companies involved in illegal or unsustainable deforestation. This may relate to palm oil, cattle farming or other concerns.

**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 damage and pollution policy** – funds or investments that have written policies explaining the approach they take when companies damage the environment or are significant polluters. Funds of this kind may work with companies to encourage higher standards, or exclude companies – sometimes dependent on the situation.

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

**Environmentally focused** – an investment approach that focuses on environmental opportunities – from single issues like water, resource management or waste, to broader issues such as biodiversity and climate change.

**Environmental, Social and Governance (ESG)** – the three central factors 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.

# The A to Z for ESG

**ESG weighted or tilted** – an investment approach that considers environmental, social and governance (ESG) or sustainability issues, but isn't wholly directed by them. Funds adopting this approach tend to favour companies with higher ESG or sustainability standards. They will typically invest more heavily in those that have higher ESG ratings, standards or scores and less heavily in companies with lower ESG ratings.

**Ethically focused** – an investment approach that focuses on issues relating to personal values or opinions. Funds adopting this approach typically invest in companies with more positive environmental and social practices and avoid areas that are widely regarded as more negative – like arms, tobacco and gambling.

**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 and countries).

## F

**Faith based** – an investment approach that focuses on faith-based issues (e.g., Sharia Law). Funds adopting this approach tend to use negative ethical screening to invest in assets that align with a recognised religion or faith. Other funds may also be suitable for investors of faith, although their core focus is not religious beliefs.

**Faith friendly** – a fund or investment that has attributes that commonly suit the aims of investors of faith – although they may not be specifically marketed as being only for religious investors.

## G

**Glasgow Climate Pact** – an agreement made at the COP26 climate change conference in Glasgow that aims to reduce the worst impacts of climate change and keep temperature rises within 1.5°C. Countries agreed to speed up the pace of climate action and revisit and strengthen their current emissions targets to 2030.

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

## H

**Health or wellbeing policy** – funds or investments with policies that set out their approach to health and wellbeing issues. Funds of this kind typically aim to invest in companies with high standards – or encourage high standards.

**Human rights policy** – funds or investments that have policies relating to human rights issues. Funds of this kind typically require companies to demonstrate higher standards, although some fund managers work to encourage improvements.

## 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.

## L

**Limited exclusions** – an investment approach that will only limit investment in, or exclude a small number of, companies such as tobacco companies or companies that breach commonly adopted ESG standards. They may aim to encourage companies to improve their standards.

## 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

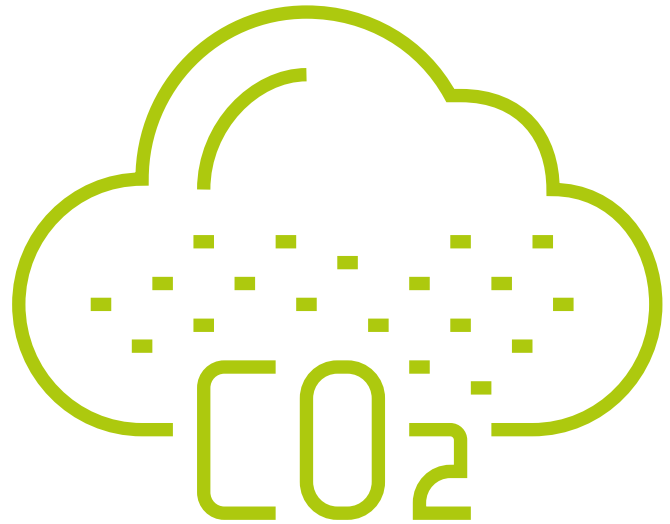
**Net zero** – achieving an overall balance between emissions (greenhouse gases) produced and those taken out of the atmosphere.

**Net zero commitment** – organisations or fund management companies that have pledged to reduce the sum of their greenhouse gas emissions to 'net zero'.

**Nuclear policy** – funds or investments that have policies which say they avoid or limit their investment in the nuclear industry.

## O

**Oppressive regimes policy** – funds or investments that exclude companies based in, or with operations in, countries with oppressive regimes.



## 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.

**Plastics policy** – funds or investments that are reviewing or encouraging companies to manage down the overuse of plastics (particularly single use, non-recyclable plastics). These funds will typically aim to encourage the use of alternative materials, but are unlikely to exclude companies purely on the basis of their use of plastics.

**Positive impact** – the delivery of positive social or environmental impacts (or societal and real world outcomes) by investing in companies the manager sees as beneficial to people or the planet.

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

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



# The A to Z for ESG

**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.

**Responsible supply chain policy** – funds or investments that have policies that relate to the responsible management of supply chains. These may relate to employment issues, notably people employed by their suppliers, as well as the sourcing of materials and products.

## 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 approach to human rights, modern slavery, child labour, working conditions and employee relations.

**Socially focused** – an investment approach focused on people issues – from employment and education, to diversity, equality and human rights. Funds adopting this approach invest in companies with positive social practices.

**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 focused** – an investment approach that focuses on identifying companies that offer products and services that encourage greener lifestyles or show sustainability leadership. Funds adopting this approach typically avoid sectors that don’t help raise environmental or social sustainability standards, as well as arms and tobacco companies.

**Sustainability-themed investing** – an investment 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).



## T

**Tobacco policy** – funds or investments that exclude manufacturers of tobacco (or related) products. Strategies vary and funds may or may not invest in retailers of such products (e.g., supermarkets or hotels).

## 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 wellbeing 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.

As interest and assets in responsibly-managed investments continue to grow, we are 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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