Sustainable investing

Glossary

Active ownership
Investors actively using their voting rights and directly engaging with company management on ESG issues, as well as wider matters of business strategy, to ensure the company's interests are aligned with their own. Active ownership efforts can help to reduce risk and enhance long-term shareowner value.

Benefit corporation (B corp)
A new class of corporation that voluntarily meets higher standards of corporate purpose, accountability and transparency. A B corp has a corporate purpose to create a material positive impact on society and the environment. They are required to consider the impact of their decisions on shareholders, stakeholders, community and the environment. They are obliged to publish an annual benefit report made available to the public, which assesses their overall social and environmental performance against a third party standard. Becoming a B corp gives entrepreneurs and investors an additional choice to determine which corporate form is most suitable to achieve their objectives.

Best-in-class
A common responsible investment term referring to focusing investments on companies that have historically performed better than their peers within a particular industry or sector, based on analysis of ESG factors. This typically involves positive or negative screening.

Blue bond
A finance initiative that utilises capital markets to fund ocean-related environmental projects. The first of its kind was approved by the World Bank in 2017 and sanctioned the use of over $20 million to improve fisheries and marine resources in the Seychelles.

Cap and trade system
A strategy to reduce carbon emissions via financial incentives. 'Caps' establish emissions limits and fines for exceeding those limits, whilst companies operating below their carbon limits can sell or 'trade' their offsets to companies that are operating above the limits.

Carbon Disclosure Project (CDP)
An independent, non-profit organisation that maintains a database of corporate climate change data, incorporating disclosures of individual organisations' greenhouse gas emissions and climate change strategies.

Carbon Emissions Reduction Target (CERT)
Previously known as the Energy Efficiency Commitment, CERT is a five-year obligation imposed on the gas and electricity transporters and suppliers to reduce the carbon emissions within domestic properties.

Carbon footprint
The total amount of greenhouse gases emitted directly or indirectly through any human activity. It is typically expressed in equivalent tonnes of either carbon or carbon dioxide.

Carbon neutrality
Carbon neutrality, or having a net zero carbon footprint, refers to achieving net zero carbon emissions by balancing a measured amount of carbon released with an equivalent amount offset or buying enough carbon credits to make up the difference. It is used in the context of carbon dioxide-releasing processes associated with transportation, energy production and industrial processes, such as production of carbon neutral fuel.

Carbon tax
A tax levied on carbon dioxide emissions that aims to reduce the total amount of greenhouse gas emissions by setting a price on pollution. A carbon tax can be used independently or in conjunction with other emissions controls, such as a carbon cap.

Circular Economy
The value of products and materials maintained for as long as possible. Waste and resource use are minimised and products are regenerated to create further value. This can bring major economic benefits by contributing to innovation, growth and job creation.

Clean energy
Energy from non-polluting sources including solar, wind and water.

Cleantech
An investment theme, rather than an industrial sector, that may include investments in agriculture, energy and manufacturing. It represents a range of products and services that reduce or eliminate ecological impact, or require lower resource inputs.

Climate change
Changes in global climate patterns, such as temperature, precipitation and wind, that lasts for extended periods of time as a result of natural processes or human influences.

Climate risks
Risks stemming from climate change that have the potential to affect companies, industries and entire economies. There are a range of business risks associated with climate change, including regulatory developments, growth of natural resource scarcity and potential reputational damage.

Community impact investing
Also known as 'community investing', is a form of providing capital to communities that are underserved by traditional sources of investment. Generally providing credit, equity and basic banking functions to communities that would otherwise have no access.

Corporate engagement
Using shareholder power to directly influence corporate behaviour or decision-making. This includes actions such as communicating with company management, filing shareholder proposals and proxy voting.

Corporate governance
The procedures, processes and structures that directs and controls a company. Responsibility for governance of companies lies with the Board of Directors, whose duties include setting the company's strategic aims, providing effective leadership, supervising business management and reporting to shareholders on their stewardship.

Corporate social responsibility (CSR)
Also referred to as 'corporate responsibility' or 'CR', is the idea that a business should take account of economic, social, environmental and ethical implications in the running of its operations. There are a number of impacts related including risk mitigation, cost implications, brand image and competitiveness.

Divestment
Selling or disposing of shares or other assets in certain investments. This is the most readily associated with divestment from companies involved in the extraction of fossil fuels. Active ownership investors often view this as a last resort.

Emission trading
A market approach to reducing greenhouse gas emissions. Trading allows parties that emit less than their allowed emissions to trade or sell excess pollution credits to other parties that emit more than they are allowed. Please see the related definition 'Cap and trade system'.

Engagement
Regular and sustained discourse with a company, regulator or other central authorities in order to seek long-term positive outcomes.

EU Eco-Management and Audit Scheme (EMAS)
A management tool for companies and other organisations to evaluate, report and improve their environmental performance. The scheme has been available for company participation since 1995 and was originally restricted to companies in industrial sectors. Since 2001, EMAS has been open to all economic sectors, including public and private services.

Environmental, social & governance (ESG)
This is a term similar to corporate social responsibility and refers to the conduct of business investment activities which are environmentally and socially responsible whilst incorporating good governance principles to ensure accountability to investors.

ESG integration
The analysis of material factors as part of the investment analysis and decision-making process, including environmental, social and governance factors. Please see the related definition above.

Equality and diversity
Described as the fair and equal treatment of individuals who may be grouped according to at least one common characteristic such as age, gender, ethnicity, disability, sexual orientation, religion or belief.

Ethical investing
An investment philosophy guided by moral values, ethical codes or religious beliefs, generally associated with negative screening.

Exclusionary
Screening out industries, such as oil and tobacco, or avoiding companies with the poorest scores in any given sector.

Extra-financial factors
Factors beyond those included in traditional financial analysis. In particular, environmental, social and governance considerations taken into account when evaluating the potential of an investment. Please see the related definition 'ESG integration'.

Fossil fuels
Carbon-based, non-renewable energy sources such as coal, coal products, natural gas, derived gas, crude oil, petroleum products and non-renewable wastes. Their combustion results in the release of carbon into the Earth's atmosphere. It is estimated that roughly 80% of all man-made CO_2 and greenhouse gas emissions originate from this combustion.

Global Impact Investing Ratings System (GIIRS)
The assessment of the social and environmental impact of developed and emerging market funds and companies, using a ratings approach comparable to Morningstar investment rankings or rating agency credit risk ratings.

United Nations Global Compact
A corporate sustainability initiative, asking companies to align strategies and operations with universal principles on human rights, labour practices, environmental concerns and anticorruption, whilst taking action to advance societal goals.

Global warming
The gradual average increase in temperature of the Earth's near surface atmosphere accelerated by greenhouse gases emitted by human industry. This is one type of global climate change and is also a contributor to other types.

Green bonds
Debt securities which the proceeds are exclusively used to promote climate and environmental sustainability purposes.

Green energy
Sources of energy considered to be environmentally friendly and non-polluting.

Green investing
An investment philosophy that considers the environmental impact of an underlying investment.

Greenwashing
The process that a company publicly and misleadingly declares itself to be environmentally friendly, however internally participates in environmentally or socially-unfriendly practices.

Impact investing
An investment philosophy which supports companies that are working to provide significant societal or environmental benefit, in addition to generating a financial return.

Impact Reporting and Investment Standards (IRIS)
A set of standardised metrics used to describe the social, environmental and financial performance of an organisation. It provides a basis for performance reporting and is widely accepted by the impact industry as a set of measurement principles.

Low carbon economy
An economy with minimal emission of greenhouse gases as part of a global warming mitigation strategy through integration of manufacturing, agriculture, transportation and power generation around technologies that produce energy, materials and waste disposal with low greenhouse gas emission.

Millennium Development Goals (MDG)
Eight international development goals that were established following the United Nations Millennium Summit in 2000. The aim of the Goals is to encourage development by improving socio-economic conditions in the poorest countries.

Microcredit
Small loans that are typically with low interest, available to entrepreneurs who have little or no access to capital or financing, usually within developing countries.

Natural capital
The environmental assets of a company and natural resources existing in its physical environment. Resources such as minerals, forest or energy may be owned, whilst others may be simply utilised in business operations such as clean water and atmosphere. Often traditional economic measures and indicators fail to take into account the developmental use of natural capital, although preservation of its quantity and quality. Therefore, its sustainable use is essential to the long-term survival and growth of a business.

Negative screening
A strategy of avoiding the investment in companies that match predetermined criteria. An example is not investing in a business with practices that are considered to be harmful to individuals or the environment.

Non-governmental organisation (NGO)
Any non-profit, voluntary citizens group which is organised on a local, national or international level.

Polluter pays principle (PPP)
An environmental policy principle which requires that the costs of pollution be borne by those who cause the damage to the natural environment.

Positive screening
A strategy of identifying investible companies that match predetermined criteria. An example is investing in a company that has a culture of strong corporate social responsibility.

Principles for Responsible Investment (UNPRI)
This United Nations-backed initiative is an international network of investors working together to implement six Principles with the goal of understanding the implications of sustainability for investors. The initiative supports signatories in incorporating these issues into their investment decision-making and ownership practices, with the hope that signatories will contribute to the development of a more sustainable global financial system.

Proxy voting
This allows shareholders to exercise their right to vote without having to attend company annual meetings. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Renewable energy
Any source of energy that can be naturally and constantly replenished on a human timescale. Examples include energy derived from solar, wind, geothermal, biomass or hydroelectric.

Responsible investment (RI)
The incorporation of ESG factors in the selection and management of investments. It encompasses a range of strategies including ESG integration and thematic, ethical, socially responsible, sustainable, green, community, mission-based and impact investing.

Responsible property investment (RPI)
An approach to investment in property that recognises environmental and social considerations, along with conventional financial objectives. It goes beyond minimum legal requirements to improve the environmental or social performance of property through strategies such as energy saving measures.

Shareowner/shareholder advocacy
Using shareholder power to directly influence corporate behaviour or decision-making. This includes communicating with company management on environmental, social, governance and transparency issues, as well as filing shareholder proposals and proxy voting.

Social impact bond (SIB)
Also referred to as a 'social benefit bond', it is a contract with the public sector or governing authority in which a commitment is made to pay for improved social outcomes that result in public sector savings. It differs from a traditional bond because the repayment and return on investment are contingent upon the achievement of desired social outcomes.

Socially screened/SRI Funds
Funds that integrate ESG analysis into the investment process. They seek to avoid owning companies that are deemed harmful to society or the environment with the aim to own the most responsible companies that have the highest potential for return on investment. Such funds may represent any asset class and a variety of different investment strategies.

Socially responsible investment (SRI)
Also referred to as 'sustainable, responsible and impact investment' is the process of integrating societal concerns, personal values or an institutional mission into investment decision-making. It is an investment process that considers the social and environmental consequences of investments within financial analysis.

Standards-based
Stock-picking using international standards regarding environmental protection, human rights, reducing poverty or other societal aims.

Stranded assets
When there is potential for fossil fuel reserves to become 'unburnable' due to rising operational costs associated with carbon pricing, as well as increasing regulation and public pressure for alternative sources of energy.

Sustainability
Practices that would ensure the continued viability of a product or practice well into the future. The most commonly used definition comes from the 1983 United Nations Brundtland Commission that defined sustainability as that "which meets the needs of the present without compromising the ability of future generations to meet their own needs."

Sustainable communities
Areas that are economically prosperous. They contain decent homes at affordable prices, safeguards for the countryside, enjoys an accessible living and working environment. These communities are effectively represented and governed.

Sustainable economic growth
HM Government defines this as '... economic growth that can be sustained and is within environmental limits, but also enhances the environment and social welfare, and avoids greater extremes in future economic cycles.'

Source: HM Government, 'Prosperous Places: Taking Forward the Review of Sub National Economic Development and Regeneration', March 2008, www.berr.gov.uk/files/file45468.pdf

Sustainable economy
HM Government defines this as '... a strong, stable and sustainable economy which provides prosperity and opportunities for all, and in which environmental and social costs fall on those who impose them ('the polluter pays'), and efficient resource use is incentivised."

Source: HM Government, 'Prosperous Places: Taking Forward the Review of Sub National Economic Development and Regeneration', March 2008, www.berr.gov.uk/files/file45468.pdf

Sustainability report
A report produced by an organisation to inform stakeholders about its policies, programmes and performance regarding environmental, social and economic issues. These reports are usually voluntary, often independently audited and integrated into financial reports.

Sustainable development
The concept of meeting present needs without compromising future generations. It encompasses social welfare, protection of the environment, efficient use of natural resources and economic wellbeing.

Sustainable Development Goals (SDGs)
Also referred to as the 'Global Goals', they are a universal call to action to end poverty, protect the planet and ensure that everyone enjoys peace and prosperity. These 17 Goals build on the successes of the Millennium Development Goals, whilst including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, amongst other priorities. They are interconnected and often the key to success in one Goal will involve tackling issues commonly associated with another.

Sustainable investing
Long-term investment in a company, asset or sector that makes a positive contribution to environment, economy or society, to support or boost that positivity over time.

Thematic investment
An investment strategy that involves selecting assets based on investment themes such as climate change.

Triple bottom line
A phrase coined in 1994 and attributed to John Elkington, describes how the three pillars of sustainable development, environmental, social and economic, underpin the value and performance of an organisation. Also referred to as 'people, planet, profit', triple bottom line accounting means expanding the traditional reporting framework to account for ecological and social performance, in addition to financial performance.

UK Sustainable Investment and Finance Association (UKSIF)
The membership network for sustainable and responsible financial services in the UK. The association supports the growth of the sector by informing, influencing and connecting UK finance, policymakers and the public.

Eden Park Investment Management Limited
The Pavilions, Eden Park, Ham Green,
Bristol, BS20 0DD
01275 404 880
enquiries@edenparkim.co.uk
www.edenparkim.co.uk

LGT Vestra LLP
14 Cornhill
London
EC3V 3NR
www.lgtvestra.com