Glossary of ESG terms

Attitudes are changing. Investors are increasingly looking to make a positive contribution to society and the environment through their personal finances, driving us towards a cleaner, healthier and more equitable future.

To help improve your understanding, in this glossary we've provided definitions for some of the key and commonly misunderstood terms used in relation to environmental, social and governance (ESG) investing. We hope you find this useful in navigating responsible investment products.

Biodiversity
The variety of plant and animal life in the world or in a particular habitat/region. In the context of ESG investing the term refers to the biodiversity loss or ecosystem degradation. It is one of the key areas of focus in "E" together with climate change.

Board of Directors
Appointed by shareholders to represent their interests in the decision-making process of a company.

Brown industries
Usually refers to highest greenhouse gas emitting industries to differentiate them from Green Industries.

Carbon footprint
A measure of the impact that a person, product, service or company has upon greenhouse gas (carbon dioxide) emissions. Usually calculated as the greenhouse gas emission produced.

Clean technology
A technology or process that has a positive or neutral impact on environment as they produce low or net zero carbon emissions.

Climate change
Change in climate patterns and extreme weather conditions attributed to the emission of carbon dioxide into the atmosphere, mainly from the use of fossil fuels.

COP – or Conference of the Parties
The highest decision-making body of the UN Convention on Climate Change (UNFCC) which meets annually with government, public and private organisations and officials involved in addressing climate change.

Diversity and inclusion
Diversity refers to the differences people may have in terms of their gender, sexual orientation, age, race, religion, disability, or other characteristics.

Inclusion is about celebrating diversity, challenging inequality, and ensuring people feel respected.

Divestment
Also known as divestiture. In the context of ESG investing it refers to the sale of assets no longer viable for their negative impact on the environment or society.

Engagement
The process of communicating with representatives of a company as a shareholder with the aim of improving their behaviour and policies. Engagement can be with representatives of the company's board or managers. Engagement may have defined ESG topics or targets to discuss. Also known as Stewardship.

Environmental factors
The E in ESG. Includes assessing factors that have an impact on the environment, such as addressing climate change impact and solutions, energy efficiency, waste management, pollution, and the broader impacts that a company and its products have upon the planet.

ESG integration
The process of including ESG factors in the fundamental financial analysis of companies and investments.

ESG fund ratings
A scoring process that indicates the ESG credentials of a fund, based upon its underlying holdings, usually assessed according to a defined methodology by third party providers. It can potentially cover a long list of diverse factors such as board composition, carbon emissions, gender equality, human rights, labour practices, and shareholder rights. There's no single method for scoring or ranking companies and it is an external evaluation provided by third party data providers.

Ethical investing
The practice of selecting investments based upon a belief system or moral values. Typically, may have a degree of exclusion or negative screening when it comes to selecting investments.

Exclusionary focus or screening
Also known as negative screening. The process of excluding companies engaged in specific activities that are considered tobe damaging, such as alcohol, tobacco, gambling, pornography and child labour.

Fossil fuels
Naturally produced energy sources, such as coal, oil and gas. It is scientifically proven that gases released from burning fossil fuels (such as carbon dioxide) are a leading cause of climate change.

Governance
The G in ESG. Also known as corporate governance. Refers to the rights and responsibilities of stakeholders and how well a company is run. Includes issues such as executive pay, corruption and board diversity.

Green bonds
Bonds issued to fund a specific project with an environmental purpose.

Green fund
A fund that invests in companies that are consider positive for the environment.

Green industries
Typically refers to a company that seeks to minimise the impact of its business on the environment.

Greenwashing
The promotion of a product through misleading claims as to its environmental credentials.

Human rights
Basic rights that belong to everyone, including the right to life, liberty, freedom from slavery and torture, and the freedom of opinion and expression. The UN Declaration on Human Rights is widely recognised as the benchmark for these basic standards.

Independent directors
Directors that serve on a company's board but are not salaried employees of the company. They may receive "sitting fees" for Board duties. Their role is to provide independent oversight and sit on committees dealing with sensitive issues such as executive remuneration.

Impact investing
Investments made with the intention of generating positive, measurable social and environmental impacts, where impact has priority over financial performance.

Inclusionary focus
An investment strategy that may include companies or issuers that don't necessarily have a high ESG ranking but that have the potential to improve or have a strategy to improve.

Negative screening
Also known as exclusionary focus or screening. The process of excluding companies engaged in specific activities that are considered to be damaging, such as alcohol, tobacco, gambling, adult entertainment and child labour.

Positive screening
Also known as a "positive focus". A process that focuses upon companies engaged in positive activities for the community or natural world, such as recycling, education or public transport.

Proxy voting
A form of voting whereby the fund manager casts votes on behalf of their mutual fund shareholders on a variety of issues, that may include the election of board members, merger or acquisition approvals, or approving a stock compensation plan.

Renewable energy
Energy that is naturally replenished from sources such as solar, wind, water and geothermal heat.

Responsible investment
A broad term for describing investing that aims to invest responsibly. ESG investing is part of this aim.

Shareholder activism
Shareholders looking to change a company's behaviour. Increasingly used to describe those pushing for improvements to a company's ESG policy and practices.

Sin stocks
Shares of companies either directly or indirectly associated with unethical/immoral activities or are damaging the environment, such as weapons, alcohol, tobacco, gambling or adult entertainment.

Social impact bonds
Bonds issued to fund projects that seek to address specific social challenges or to improve social outcomes in areas such as health, community living or education.

Social factors
The S in ESG. Refers to areas such as diversity and inclusion, human rights, inequality, data protection and health and safety.

Socially Responsible Investments (SRI)
A broad term that refers to an investment approach that takes into account the social implication of investment. This term tends to be substituted with ESG to include implications on environment and governance as well.

Stewardship
Stewardship in investment embodies the responsibility of fund managers to act responsibly in accordance with their fiduciary duty with clients. Among others it involves promoting corporate governance practices that are consistent with encouraging long-term value creation for shareholders in the company/asset.

Sustainable investments
A broad term that is used to describe investments that directs capital to those companies that promote sustainable models and strategies to create long term value, while at the same time considering ESG considerations and impact.

Thematic investing
When used in the context of ESG, this refers to investing in companies with a strategy that focuses on a defined theme or trend, such as renewable energy, climate change, water management or access to healthcare.

UN Principles for Responsible Investment (UN PRI)
The United Nations established the PRI to be the leading proponent of responsible investment. It works to understand the investment implications of ESG factors, and to support its international signatories in incorporating these factors into their investment and ownership decisions.

UN Sustainable Development Goals (UN SDGs)
The United Nations set 17 core goals to encourage action to improve global issues such as social wellbeing, inequality and climate impact. The 2030 Agenda for Sustainable Development was adopted by UN member states in 2015.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important Information

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

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