Glossary of Responsible Investment Terms

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As its basis, Responsible Investment (RI) is the incorporation of environmental, social and governance factors (ESG) into the selection and management of investments. As RI has evolved, and gained increasing prominence in the decision-making processes of institutions and individuals, so too has the breadth of RI considerations, and the associated terminology. The following glossary identifies some of the more common terms associated with the wider RI arena.

Active Ownership
Investors actively using their voting rights and/or 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.

Best-in-Class
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.

Carbon Disclosure Project (CDP)
CDP is 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 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 sequestered or 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.

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, manufacturing and so on. Cleantech represents a range of products and services that either reduce or eliminate ecological impact, or require lower resource inputs.

Climate Risks
Risks stemming from climate change that have the potential to affect companies, industries and whole economies. There are a range of business risks associated with climate change, including regulatory developments, growing natural resource scarcity and potential reputational damage. These are all risks that need increasingly to be proactively managed.

Community Investing/Community Impact Investing
Providing capital to communities that are underserved by traditional sources of investment. Community investing generally provides 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 through which a company is directed and controlled. Responsibility for governance of companies lies with the Board of Directors, whose duties include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.

Corporate Social Responsibility/Corporate Responsibility (CSR/CR)
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 to CSR, including risk mitigation, cost implications, brand image and competitiveness.

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

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

ESG (Environmental, Social & Governance)
An investment approach that incorporates environmental, social and governance factors into the investment process.

ESG Integration
Including ESG factors as an integral part of the investment decision-making process, with this extra-financial analysis integrated into the overall analysis of a potential investment.

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

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.

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Global Compact (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 anti-corruption, while taking actions that advance societal goals.

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

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.

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

Negative Screening
A strategy of avoiding investing in companies that match pre-determined criteria – for example, if business practices are considered harmful to individuals or the environment.

Positive Screening (see 'Best-in-Class')
A strategy of identifying investible companies that match pre-determined criteria – for example, having a culture of strong corporate social responsibility.

Principles for Responsible Investment (UNPRI)
The United Nations-backed Principles for Responsible Investment initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors, and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing the Principles, it is hoped that signatories will contribute to the development of a more sustainable global financial system.

Proxy Voting
Proxy voting 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.

Responsible Investment (RI)
As its basis, responsible investment (RI) is the incorporation of ESG factors into the selection and management of investments. Over time, RI has come to encompass a range of strategies including ESG integration, thematic investing, ethical investing, socially responsible investing, sustainable investing, green investing, community investing, mission-based investing and impact investing, among others.

Responsible Property Investment
RPI is an approach to property investing that recognises environmental and social considerations, along with more conventional financial objectives. It goes beyond minimum legal requirements, to improving 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, filing shareholder proposals and proxy voting.

Socially Screened or SRI Funds
SRI funds integrate ESG analysis into the investment process, generally seeking to avoid owning companies that are deemed harmful to society or the environment, while seeking to own the most responsible companies with 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)
Socially Responsible Investment (or Sustainable, and 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.

Stranded Assets
Stranded assets refer to the potential for fossil fuel reserves to become 'un-burnable' due to rising operational costs associated with carbon pricing, as well as increasing regulation and public pressure for alternative sources of energy.

Sustainability Report
A report produced by an organisation to inform stakeholders about its policies, programmes, and performance regarding environmental, social, and economic issues. Sustainability reports are usually voluntary, and are sometimes independently audited and/or 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 well-being.

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

Thematic Investment
Thematic investment involves selecting assets on the basis of investment themes such as climate change.

Transparency
The degree to which an organisation discloses essential information about its structure and operations, assigning responsibility and accountability to management decisions and company actions.

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