Glossary of Responsible Investing Terms

This is a glossary of terms commonly used by Sustainable, Responsible, Impact investors and the investment professionals who serve them.

Active Ownership – Responsible investors increasingly pursue active ownership efforts to reduce risk and enhance long-term shareowner value. This includes voting company shares and/or engaging company management and boards of directors on environmental, social, and corporate governance (ESG) issues, as well as on business strategy issues.

Best-in-Class – Focusing investments in companies that have historically performed better than their peers within a particular industry or sector based on analysis of environmental, social, and corporate governance (ESG) issues. Typically involves positive or negative screening, or portfolio tilting.

CDFI (Community Development Financial Institution) – An institution run through the US Treasury that creates a fund investing federal money alongside private sector capital. Supporting change in economically disadvantaged communities, it focuses on mission driven financial institutions.

CDP-Formerly known as the Carbon Disclosure Project – Nonprofit organization that collects extensive climate change, water and forest risk data through an annual voluntary questionnaire process. Over 800 institutional investor signatories access this information to assess portfolio risk and to engage companies on climate risk issues. CDP supports companies, cities and national governments to measure, manage and mitigate climate risk.

Ceres – Nonprofit organization that leads a national coalition of investors, environmental organizations, and other public interest groups working with companies to address sustainability challenges such as climate change and water scarcity.

Cleantech – A large and growing venture capital investment category representing a range of products, services, and processes that either directly reduce or eliminate ecological impacts or require lower resource inputs. Cleantech is an investment theme rather than an industrial sector as it may include investments in agriculture, energy, manufacturing, materials, technology, transportation, and water.

Climate Risks – Risks stemming from climate change that have the potential to affect companies, industries and whole economies. There are five key areas of business risk associated with climate change: regulatory, physical, litigation, competitiveness, and reputational.

Community Investing / Community Impact Investing – Directing investment capital to communities that are underserved by traditional financial services institutions. Generally provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack.

Corporate Governance – Procedures and processes according to which an organization (in this context, mainly a company) is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization—such as the board, managers, shareholders, and other stakeholders—and lays down rules and procedures for decision making.

CSR (Corporate Social Responsibility) –An approach to business which takes into account economic, social, environmental, and ethical impacts for a variety of reasons, including mitigating risk, decreasing costs, and improving brand image and competitiveness.

Divestment – Selling or disposing of shares or other assets in full or part in certain assets based on corporate behavior. Investors who practice active ownership often view divestment as the last resort. Divestment gained prominence during the boycott of companies doing business in South Africa, prior to the dismantling of apartheid. A more recent focus is fossil fuel extraction companies.

Sources: www.ceres.org; www.mercer.com/ri; www.parnassus.com; www.ussif.org

Double Bottom Line – A term used to describe the combination of quantitative + qualitative analysis embraced by socially conscious investors. The qualitative analysis overlay generally differentiates responsible investing from its conventional roots and competitors.

Environmental Justice – The fair treatment and inclusion of all people, regardless of their race, color, national origin or socio-economic stature. This inclusion is comprehensive of all issues, from development, implementation and enforcement of environmental laws, regulations, and policies. Flint Michigan and Katrina are two historic examples of environmental injustice.

ESG (Environmental, Social, Governance) – Investment analysis that incorporates environmental, social, and corporate governance factors into the investment process. ESG terminology was developed and promul¬gated by the United Nations Principles for Responsible Investing (UNPRI).

ETF (Exchange Traded Fund) – A security that tracks an index, a commodity, or a basket of assets like a mutual fund, but trades like a stock on an exchange. Like a stock, ETFs experience intradaily price changes.

Ethical Investing – Investment philosophy guided by moral values, ethical codes, or religious beliefs. This practice has traditionally been associated with negative screening.

FPIC (Free, prior and informed consent) – Named by The Forest Peoples Programme, this names the value that a community has the right to voice an opinion on projects taking place on the lands they own and should be included in the conversation of use.

Freshfields Report – Freshfields is an international law firm based in London. The original report, A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment (2005), provided assurance to institutional investors that the consideration of ESG issues is firmly grounded within the bounds of fiduciary duty. This landmark report was followed by Fiduciary Responsibility—Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment (2009). The report provides a legal roadmap for fiduciaries looking for concrete steps to operationalize their commitment to responsible investment.

Global Reporting Initiative – The Global Reporting Initiative (GRI) is a network-based organization whose goals include the mainstreaming of disclosure on ESG performance. The GRI Reporting Framework is developed through a consensus-seeking, multi-stakeholder process and sets out the Principles and Performance Indicators that organizations can use to measure and report their ESG performance.

Green America – A national nonprofit consumer organization promoting environmental sustainability, social justice and economic justice to individuals and businesses in the marketplace.

Green Investing – An investment philosophy that includes criteria relating to the environmental impact of the underlying investment.

IEHN (Investor Environmental Health Network) – This network of investment managers, advised by nongovernmental organizations, encourages companies to adopt policies to reduce and eliminate toxic chemicals in their products.

Interfaith Center on Corporate Responsibility (ICCR) – A coalition of faith-based institutional investors.

Impact Investing – Investment strategies that provide capital to companies working to generate a financial return along with significant societal or environmental benefit.

Investor Network on Climate Risk (INCR) – Launched by Ceres, this network includes institutional investors, religious and labor funds, asset managers and socially responsible investment funds. Members actively engage with companies in their portfolios on climate and sustainability issues and advocate for strong climate and energy policies.

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Microenterprise – Microenterprises are those with ten or fewer workers. They are often unregistered businesses and run by financially impoverished people.

Mission-Based Investing – Incorporating and reflecting an organization's mission in its investment decision-making process. Generally these organizations are 501(c)(3) nonprofits.

Moskowitz Prize – The only global academic award that recognizes outstanding quantitative research in areas of interest to responsible investors. Since 1996, prize winners have explored topics like shareowner engagement and the question of whether SRI investment strategies inhibit or enhance financial performance. The Moskowitz Prize is awarded annually at The SRI Conference. The Haas School of Business at UC Berkeley conducts the review of applications.

Negative Screening – A strategy of avoiding investing in companies whose products and business practices are harmful to individuals, communities, or the environment. It is a common mistake to assume that SRI "screening" is simply exclusionary, or only involves negative screens. In reality, SRI screens are being used more and more frequently to identify and invest in companies that are leaders in adopting clean technologies, managing environmental impacts, and integrating exceptional social and governance practices. See "Positive Screening" below.

Proxy Voting – Entitled shareowners delegate their proxy votes to others who vote on their behalf. Proxy voting allows shareowners to exercise their right to vote their proxies without committing the time involved to actually attend company annual meetings.

Positive Screening – Including strong corporate social responsibility (CSR) performers or otherwise incorporating positive CSR factors into the investment analysis process. Generally, socially conscious investors seek to own profitable companies that make positive contributions to society, and avoid those that do not. "Buy" lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world. See also "Qualitative Analysis" below.

Principles for Responsible Investment (UNPRI) – The United Nations-backed Principles for Responsible Investment Initiative (UNPRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice. The Principles were devised with input from the global community of responsible investors. They reflect the view that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfill their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and better align their investment objectives with those of society at large.

Qualitative Analysis – Analysis of company policies, practices, behaviors, and impacts which helps portfolio managers avoid undesirable companies and identify and invest in the best managed organizations in each industry group. Often used interchangeably with "positive screening" (see above).

Shareowner / Shareholder Advocacy – Responsible investors often take an active role as the owners of corporations, including talking with companies on social, environmental, governance, (ESG) and transparency issues. Shareowner advocacy also frequently involves filing, and co-filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, gender/racial discrimination, pollution, problem labor practices, and a host of other issues.

Shareholder Proposal / Resolution – A shareholder request that the company or its board of directors take particular action. Proposed by a shareholder or group of shareowners, this request may be presented at a company's annual general meeting and voted on by all shareholders. In some instances, proposals are withdrawn in advance of the annual meeting or disallowed by regulators.

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SOCAP – An organization that is dedicated to accelerating a new global market at the intersection of money and meaning. SOCAP seeks to create a platform where social impact leaders can connect and present their ideas to a global audience

Socially Screened or SRI Mutual Funds – SRI mutual funds integrate ESG analysis into the investment process—generally seeking to avoid owning companies with a harmful impact on society, and seeking to own the most responsible companies with the highest profit potential. Such funds may represent any asset class and many different investment strategies, including domestic and international investments. A growing range of products is available, including hedge funds and ETFs (exchange traded funds).

SRI – Sustainable, responsible, impact (SRI) investing is the process of integrating personal values, societal concerns, and/or institutional mission into investment decision-making. SRI is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. SRI portfolios seek to invest in companies with the strongest demonstrated performance in the areas of environmental, social, and corporate governance (ESG) Issues. In some circles, SRI (also known as "green" or "values-based" or "impact" investing, or "responsible" investing) reflects concerns that are believed to influence investor risk. See also "Shareowner Advocacy" above.

Stranded Assets – Stranded assets are those that lose value or turn into liabilities before the end of their expected economic life. In the context of fossil fuels, this means those assets that will not be distracted and burned; they will remain stranded in the ground.

Sustainability Report – A report produced by an organization to inform stakeholders about its policies, programs, and performance regarding environmental, social, and economic (ESG) issues. Sustainability reports, also known as corporate citizenship reports, or CSR reports, are usually voluntary, and are sometimes independently audited and/or integrated into financial reports. There is a growing trend toward integration and assurance.

Sustainable Development – The concept of meeting present needs without compromising the ability of future generations to meet their needs. It encompasses social justice, protection of the environment, efficient use of natural resources, and economic wellbeing.

Triple Bottom Line – A holistic approach to measuring a company's performance on environmental, social, and economic issues. The triple bottom line approach to management focuses companies not just on the economic value (profit) they add, but also on the environmental (planet) and social (people) value they may add or detract.

Universal Owner – A large investor that holds a broad selection of investments in different public companies as well as other assets, and whose performance is, therefore, tied to the performance of markets or economies as a whole—not just to the performance of individual holdings. These investors have a vested interest in the long-term health of the economy, making public policy issues and cross-market ESG concerns particularly relevant.

US SIF – The Forum for Sustainable and Responsible Investing – US SIF (formerly the Social Investment Forum) is the membership association for professionals, firms, institutions and organizations engaged in responsible and sustainable investing in the United States. US SIF and its members advance investment practices that consider environmental, social, and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.

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