

Aspect8



**An A-Z of sustainable
investment terms**

Marketing material

The aim of this guide

Sustainability, once a fringe consideration, has become core for many investors.

Impacts on the planet – such as climate change and biodiversity loss – and on people – for example through the treatment of workers – are in the news every day.

But while the principles are fairly simple, the field of sustainability has become a sea of acronyms and technical terms.

That's where we can help. We've put together an A-Z of key terms for you to dip into whenever you need to.

We hope you find the guide useful and simple to digest.

We have made every effort to ensure that the terms are accurately described, however, the descriptions are not definitive and they may differ from other interpretations used.

If you would like more information, please get in touch by visiting us online at www.aspect8.co.uk



2°C limit or “2 degrees”

It is widely agreed that limiting the average rise in global temperatures to less than 2°C above pre-industrial levels by the end of this century may help stave off the worst of the natural disasters associated with global warming. See also “Paris Agreement”.

Active ownership

Actively influencing corporate behaviour to ensure the companies we invest in are managed in a sustainable way. This helps to both protect and enhance the value of investments.

B

C

Best-in-class

A company or country that leads its peers in terms of sustainability practices and performance.

Carbon footprint

A measure of a group, individual, company or country's greenhouse gas emissions. Common metrics include total carbon emissions or carbon intensity.

Carbon intensity

A group, individual, company or country's carbon emissions per \$million of sales.

Carbon negative

An entity whose activity removes more carbon emissions from the atmosphere than it adds.

Carbon neutral

Achieving net zero carbon emissions by balancing existing emissions with carbon offsets. Unlike "net zero", carbon neutrality is often (but not always) validated or certified by a third party. Use of these terms varies by region.

Carbon offsetting

Compensating your total carbon emissions by funding carbon negative activities elsewhere. Companies often offset their existing emissions by investing in projects such as tree-planting.

Carbon pricing

Assigning a cost to emitting CO₂ into the atmosphere, usually in the form of a fee per tonne of CO₂ emitted, or limiting the total emissions firms can produce and issuing emissions permits. Putting an economic cost on emissions is widely considered to be the most efficient way to encourage polluters to reduce what they release into the atmosphere.

Carbon Value-at-Risk (VaR)

A model developed by Schroders to measure how carbon pricing may affect a company's profits. It estimates the impact on companies' earnings of raising carbon prices to \$100 per tonne.

C

Circular economy

An economy in which there is no waste because resources are never disposed of – they are continually recycled or re-used.

Clean technology

A range of products, services and processes that reduce the use of natural resources, cut or eliminate emissions and waste, and improve environmental sustainability. Wind turbines and electric vehicles are two examples.

Climate Progress Dashboard

A tool which tracks the progress being made to limit the rise in global temperatures to 2°C. The dashboard includes 12 objective indicators, from political action through to carbon prices and fossil fuel use, and currently points to a rise closer to 4°C. The information can help investors to understand the scale of change required and to identify areas of investment risk and opportunity.

Climate change

The changing nature of our global climate, such as warming temperatures and rising sea levels, as a result of both natural weather patterns and human activity. Not to be mistaken for global warming, which focuses solely on rising temperatures due to human activity.

Climate neutral

Achieving zero total emissions of all greenhouse gases such as methane and nitrous oxide, not just carbon dioxide. Once carbon neutrality commitments become commonplace, we expect commitments to become more stringent by progressing towards climate neutrality.

Collective or collaborative engagement

Working together with other institutional shareholders to influence company management and effect positive change. Collective engagement may involve meeting companies jointly with other shareholders, via membership organisations or other more informal groupings. Climate Action 100+ is one example.

CONTEXT

A tool that provides a structured approach to analysing a company's relationship with its stakeholders and the sustainability of its business model. Driven by more than 250 metrics from over 75 data sources, it provides clear, objective information on how companies are managing material ESG issues and generates deeper insights for investors.

Conference of the Parties (COP)

The highest decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC) which meets annually to implement the Convention. The Convention's ultimate aim is to stabilise greenhouse gases at an acceptable level. The Paris Agreement was born at COP21.

Corporate controversies

When a company or representative behaves in an improper, unethical or negligent way which negatively impacts stakeholders (e.g. causing a major accident or human rights breach), resulting in reputational damage to, and in some cases the complete collapse of the firm.

C

D

Corporate governance

An oversight framework that was initially designed to ensure company management acted in the best interests of shareholders. In more recent years there has been a broader recognition of the value in considering all stakeholders.

Corporate responsibility

A company's responsibility to operate its business in a way that positively impacts, or at least does not negatively impact the environment or society. For example, a company could commit to using 100% renewable electricity by a certain year and offer a level of paid volunteer leave to its employees every year.

Corruption

Dishonest and sometimes illegal activities including bribery and fraud that can have a devastating impact on a company and its stakeholders.

Decarbonisation

The process of reducing a company, industry or country's carbon emissions. Decarbonisation is a critical component of the world's transition to a low-carbon economy.

Dialogue

Communication with investees to find out more about their sustainability practices and how prepared they are for the changing world.

Diversity and inclusion

Diversity refers to the differences people have in terms of their gender, age, ethnicity, sexual orientation, disability, religion, beliefs or other characteristics. Inclusion is about embracing and promoting diversity, addressing inequality and ensuring people feel valued and respected irrespective of their background or beliefs.

Divestment

The sale of an investment. Divestment may occur when the investee company consistently fails to meet investor expectations, often after attempts to engage with the company. Divestment may also be used to achieve social or political goals. For example, investors divested from South African assets during the apartheid era in protest against the regime.

E

Engagement

Engagement is more than just meeting with company management, it's an opportunity to gain insight into a company's approach to sustainability. It also gives us the opportunity to share our expectations on corporate behaviour and to influence company interactions with their stakeholders; ensuring that the companies we invest in are treating their employees, customers and communities in a responsible way.

Environmental factors

This is the "E" of the term "ESG" (environmental, social and governance) and concerns issues related to pollution, climate change, energy use, natural resource use, waste management, biodiversity and other environmental challenges and opportunities.

Ethical investing

Also known as "values-based investing".

ESG

Environmental, social and governance.

ESG integration

An investment approach that incorporates ESG considerations into the investment decision alongside traditional financial analysis. ESG integration is about understanding the most significant ESG factors that an investment is exposed to, and making sure that you're compensated for any associated risk.

ESG fund ratings

A rating, most commonly provided by third-party commercial providers like MSCI and Morningstar, that looks at a fund's underlying holdings and scores its overall ESG risk based on specific metrics. The choice of metrics and the resulting rating vary amongst different providers.

ESG indices

Indices traditionally track the performance of a basket of bonds or shares, such as the FTSE 100. A growing number of indices track investments by screening out certain industries or, more recently, by evaluating which companies qualify based on ESG measures. FTSE4Good indices, for example, exclude companies that do not meet specific ESG criteria.

EU Green Deal

A policy framework and package of measures that aim to make Europe climate neutral by 2050, boosting the economy through green technology, creating sustainable industry and transport and cutting pollution.

F

Fossil fuels

A natural, non-renewable energy source, such as coal, oil and gas. These are naturally high in carbon and the gases released from burning these fuels (such as carbon dioxide) are widely believed to be the leading cause of climate change.

G

Gender pay gap

A gender equality measure that shows the difference in average or median earnings between men and women.

Governance factors

See “corporate governance”. This is the “G” in “ESG” and is about assessing how well a company is run. Governance factors include remuneration, board structure and corporate strategy.

Green bond

A bond in which the proceeds are used by the issuing company or government specifically to fund new and existing projects with environmental benefits such as renewable energy and energy efficiency projects.

Greenhouse gases

Carbon dioxide, methane, nitrous oxide and fluorinated gases. These gases trap heat close to the surface of the earth and are a key cause of climate change.

Greenwashing

Falsely communicating the environmental credentials of a product, service or organisation in order to make a company seem more environmentally-friendly than it really is.

H

I

Human rights

Basic rights that belong to all human beings. They include the right to life, liberty, freedom from slavery and torture, and freedom of opinion and expression. The UN Declaration on Human Rights is widely recognised as a benchmark of these basic standards.

Impact investing

Investments that are made with the primary goal of achieving specific, positive social and environmental benefits while also delivering a financial return. Impact investments create a direct link between portfolio investment and socially beneficial activities, and historically most of the activity has occurred in unlisted assets. Not to be confused with impact measurement (see below).

Impact measurement

The measurement of how companies' activities affect the world both positively and negatively.

Integrated reporting

Company reporting that articulates the relationship between a company's strategy, governance and performance, and how this creates value for a range of stakeholders. The framework set by the International Integrated Reporting Council is widely recognised as the core standard in this area.

L

M

Low-carbon economy

An economy that emits minimal carbon into the atmosphere. Typically this means using low-carbon power sources rather than fossil fuels.

Microfinance

Financial services typically offered to those traditionally excluded from the formal banking sector such as entrepreneurs, small business owners, the unemployed or low-income groups or individuals.

Modern slavery

Although no standard definition exists, modern slavery can broadly be thought of as the exploitation of people who are coerced into an activity by someone who controls them. It can take many forms including forced or bonded labour, human trafficking or child labour.

N

O

Net zero

See “carbon neutral”. Unlike “carbon neutral”, companies or countries that call themselves “net zero” usually have not had this validated or certified by a third party. Use of “carbon neutral” and “net zero” may vary by region. Not to be confused with “zero carbon”.

Over-boarding

When a board member takes on too many board roles, hindering their ability to appropriately distribute their time, and discharge their responsibilities to each board effectively.

P

Paris Agreement

A global commitment, agreed at COP 21 in Paris in 2015, to limit increase in the global average temperature to below 2°C above pre-industrial levels. See also “2 degrees”.

Physical risks of climate change

The risk posed by climate events on a company’s physical assets such as supplies and equipment, its supply chain, operations, markets and customs.

Proxy voting

When a shareholder delegates their vote to another who votes on their behalf at company meetings. This allows the shareholder to exercise their right to vote without being physically present. Most institutional investors vote by proxy online, via phone or via e-mail, often with the help of a third party to process voting instructions.

R

Renewable energy

Energy collected from resources that are naturally replenished such as sunlight, wind, water and geothermal heat.

Responsible investing

An investment approach that considers ESG risks and opportunities as part of the investment process and uses engagement and voting in order to generate sustainable, long-term financial returns. See also sustainable investing.

S

Science-based targets

Carbon emissions reduction targets that are consistent with what the latest climate science says is necessary to keep global warming well below 2°C from pre-industrial levels.

Scope 1 emissions

Direct emissions that come from sources owned or controlled by the emitter, such as emissions from company vehicles.

Scope 2 emissions

Indirect emissions from sources owned or controlled by the emitter, such as emissions from the electricity used in a company's office.

Scope 3 emissions

Indirect emissions from sources not owned or controlled by the emitter, but which indirectly impact the emitter's supply chain, such as emissions from a company's employees commuting to work.

Screening

An investment approach that filters companies based on pre-defined criteria before investment. Negative screening deliberately excludes certain companies because of their involvement in undesirable activities or sectors. Positive screening deliberately includes companies that lead their peer groups in terms of sustainability practices and performance). Positive screening is also known as a "best-in-class investment".

Shareholder activism

A form of engagement where investors use their shareholder rights to promote change at a company, typically at a transformational level.

Shareholder resolution

A proposal submitted by a shareholder for consideration at a company's general meeting, requesting that the company takes particular action.

Share blocking

When restrictions are placed on the trading of shares which are to be voted on prior to an annual general meeting.

Sin stocks

Investments associated with activities considered to be "unethical" or "immoral" according to an investor's personal values or beliefs. Activities may include tobacco, alcohol, gambling and adult entertainment.

Social bonds

A bond in which the proceeds are used by the issuing company or government specifically to fund new and existing projects with social benefits such as affordable healthcare and housing.

Social factors

This is the "S" of "ESG". Social issues relate to how a company interacts with the communities it operates in, its suppliers, employees, customers, communities, governments and regulators. These include, for example, labour standards, health and safety, supply chain management and nutrition and obesity.

Stakeholder

A group, entity or individual impacted by a company or country's activity. Shareholders have historically been the priority stakeholder. More recently, however, companies and investors are realising the importance of their relationships with employees, suppliers, customers, the environment, communities and the governments and regulators with which it deals.

Stewardship

Actively influencing the responsible allocation, management and oversight of an investee's capital in a way that creates long-term, sustainable value. See also "active ownership".

S

Stewardship codes

A set of standards that help set stewardship expectations and best practice for asset managers and asset owners. These codes are established on a country-by-country basis.

Stranded assets

Assets that already exist but risk being “stranded” or unable to deliver a return in the longer term. Fossil fuels are the most commonly-known stranded assets.

Sustainability

The ability to adapt to changing pressures and responsibilities in order to survive and add value in the long-term. This ability is strongly linked to a company or country maintaining strong relationships with its stakeholders.

Sustainability factors

Any factor that can affect the value of an investment in the long-term. This includes ESG factors.

Sustainability risk

A change or event in any factor that can have a negative impact on the long-term value of an investment. This includes ESG factors.

Sustainability Accounting Standards Boards (SASB)

A non-profit organisation started in 2011 to establish sustainability standards that are used worldwide. SASB is well-known for its materiality map.

Sustainable investing

Although sustainable investing involves ESG integration, it takes things further by focusing on the most sustainable companies that lead their sector when it comes to ESG practices. Both the ESG integration and sustainable investing approaches are about engaging with company management to make sure the firm is being run in the best possible way.

SustainEx

An impact measurement tool that quantifies a company’s positive and negative impacts on the environment and society. It helps analysts, fund managers and clients measure and manage social and environmental impacts and risks more effectively.

T

Task Force on Climate-related Financial Disclosures (TCFD)

A voluntary standard for climate-focused disclosures that aims to create consistent and comparable reporting of climate-related risks. TCFD is widely used by companies, banks, and investors.

Thematic investing

Investing in companies that align to a particular investment theme such as renewable energy, waste and water management, education or healthcare innovation.

Transition risk

The financial risks that could result from significant policy, legal, technology and market changes as we transition to a lower-carbon global economy and climate resilient future.

Triple bottom line accounting

An accounting approach that considers a company's social (people) and environment (planet) impacts in addition its bottom line (profits) to understand the full cost of doing business.

U

UN Global Compact

A voluntary pact of the United Nations to promote responsible business through its ten universally accepted principles and encourage action to advance broader societal goals, such as the UN Sustainable Development Goals (SDGs).

UN Principles for Responsible Investing (PRI)

A set of six principles under which asset owners and asset managers voluntarily commit to incorporating ESG issues into their investment processes, active ownership and reporting, and promote responsible investment across the industry.

UN Sustainable Development Goals (SDG)

A collection of 17 goals reflecting the biggest challenges facing global societies, environments and economies today. The United Nations describes the SDGs as a "blueprint to achieve a better and more sustainable future for all".

V

Z

Voting

Public equity investors typically have the right to vote on company and shareholder resolutions at annual and extraordinary general meetings (AGMs and EGMs) on issues such as electing directors, authorising remuneration or requests for the company to set emissions targets.

Vote against management

Shareholders may vote “for” or “against” proposals. Shareholders whose votes do not align with the outcome preferred by management would be classified as a vote against management.

Zero carbon

A company whose emissions are zero - not achieved through carbon offsetting, but simply because they do not generate any carbon emissions. Not to be confused with net zero.



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