Glossary of Sustainable Investment Terms

This document has been produced by the Investment Consultants Sustainability Working Group ("ICSWG") for asset owners based in the UK – principally pension funds. The ICSWG is a collaboration between investment consulting firms in order to engage with its collective stakeholders, and give added power to asset owners and their ultimate beneficiaries in order to secure better sustainable investment practices across the investment industry.

In this glossary, aimed at asset owners on their journey towards a better understanding sustainable investing, we have put together a set of terms that will support that journey. For all but one of the terms here, we have used descriptions from relevant sources, rather than creating yet another definition.

We hope you find this useful, and that it demystifies some of the language that is commonly used when describing sustainability in the investment world.

Term	Definition	Source
Active Ownership	Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.	UN PRI
Carbon footprint	Total carbon emissions for a portfolio normalised by the market value of the portfolio. This allows portfolios to be compared to one another/a benchmark.	TCFD
Carbon intensity (of a portfolio)	Volume of carbon emissions per million dollars of revenue.	TCFD
Carbon price	Transitioning away from fossil fuels and carbon-intensive modes of production requires significant investment in low-carbon alternatives in all sectors of the economy. Policymakers can induce this transition by increasing the implicit cost of emissions. The carbon price can be thought of as a summary of these policies (e.g. a carbon tax or emissions trading scheme), and so is closely linked to the extent of transition risk.	The Bank of England
Clean technology	A range of products, services and processes that reduce the use of natural resources, cut or eliminate emissions and waste, for example electric vehicles.	Investopedia
Corporate governance	The system by which companies are directed and controlled.	UK Corporate Governance Code
Decarbonisation	The process of removing or reducing the carbon dioxide output of an activity or industry.	
Environmental, Social and Governance ("ESG") factors	Environmental, social and governance issues that are identified or assessed in responsible investment processes. • Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems. • Social factors are issues relating to the rights, well-being and interests of people and communities. • Governance factors are issues relating to the governance of companies and other investee entities.	Principles of Responsible Investment

Term	Definition	Source
ESG integration	The process of including ESG factors in investment analysis and decisions to better manage risks and improve returns. It is often used in combination with screening and thematic investing.	Principles of Responsible Investment
Engagement	Interactions between an investor (or an engagement service provider) and current or potential investees (e.g. companies), conducted with the purpose of improving practice on an ESG issue, changing a sustainability outcome, or improving public disclosure. Engagements can also be carried out with non-issuer stakeholders, such as policymakers or standard setters.	Principles of Responsible Investment
Ethical investing	Using ethical or moral principles (non-financial) as the primary filter for choosing how and where to invest.	Pensions Policy Institute
EU Sustainable Finance Disclosure Regulation ("SFDR")	A set of disclosure requirements for sustainability risks in the financial services sector. The requirements distinguish between financial products which have sustainable investment as their objective, those which promote environmental and/or social objectives and all other products.	Principles of Responsible Investment
EU Taxonomy	The EU Taxonomy is a tool to help investors understand whether an economic activity is environmentally sustainable, and to navigate the transition to a low-carbon economy. Setting a common language between investors, issuers, project promoters and policy makers, it helps investors to assess whether investments are meeting robust environmental standards and are consistent with high-level policy commitments such as the Paris Agreement on Climate Change. The Taxonomy Regulation is an amendment to the SFDR.	Principles of Responsible Investment
Exclusions	Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of sector, business activity, products or revenue stream, a particular company; or jurisdictions/countries.	The Investment Association responsible investment framework
Green bond	A bond in which proceeds are used to fund new and existing projects with environmental benefits such as renewable energy and improved energy efficiency.	International Capital Market Association
Greenwashing	An unsubstantiated claim to deceive consumers into believing that a company's products have a positive environmental benefit.	Investopedia

Term	Definition	Source
Greenhouse Gas (“GHG”) Emissions	Emissions of the seven gases mandated under the Kyoto Protocol and to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC) - carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride, and nitrogen trifluoride.	PCAF
GHG accounting of financial portfolios	The annual accounting and disclosure of GHG emissions associated with loans and investments at a fixed point in time in line with financial accounting periods. This is also called portfolio GHG accounting.	PCAF
Impact investing	Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.	Global Investing Impact Network
Net zero	When total greenhouse gas emissions would be equal to or less than the emissions removed from the environment. This can be achieved by a combination of emission reduction and emission removal. *For example,* the UK has committed to become a net zero country by 2050.	ONS
Principles of Responsible Investment (“PRI”)	The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.	Principles of Responsible Investment
Paris Agreement	To tackle climate change and its negative impacts, 197 countries adopted the Paris Agreement at the COP21 in Paris on 12 December 2015. It aims to substantially reduce global greenhouse gas emissions and to limit the global temperature increase in this century to 2 degrees Celsius while pursuing means to limit the increase even further to 1.5 degrees.	UN
Renewable energy	Renewable energy focuses exclusively on energy production that can last for the foreseeable future and does not use fossil fuel inputs for energy creation. Therefore, coal, gas and nuclear energy are excluded from the concept of renewable energy.	Principles of Responsible Investment
Responsible investment	A strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.	Principles of Responsible Investment

Term	Definition	Source
Scope 1, 2 and 3 emissions	**Scope 1:** Direct emissions that occur from sources owned or controlled by the reporting company, i.e. emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc. **Scope 2:** Indirect emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated. **Scope 3:** All other indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur as a consequence of using the organisation's products or services. **Scope 3 category 15 (investments) emissions:** This category includes scope 3 emissions associated with the reporting company's loans and investments in the reporting year, not already included in scope 1 or scope 2. These emissions will typically be the most material for an asset owner as they represent the sum of the scope 1 and 2 emissions of the investment portfolio.	PCAF
Sustainable Development Goal	The SDGs were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. The 17 SDGs are integrated—that is, they recognize that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.	UN
Screening	The application of filters to lists of potential securities, issuers, investments or sectors to rule investments in or out based on an investor's preferences, such as ethics and values, and/or investment metrics, such as risk assessments. This can be a negative screen (in which you deliberately exclude certain companies because of their involvement in undesirable activities or sectors) or a positive screen (in which you select companies based on their sustainability practices).	For the initial definition only: Principles of Responsible Investment

Term	Definition	Source
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	UK Stewardship Code 2020
Stewardship Code	The UK Stewardship Code 2020 (the Code) sets high stewardship standards for asset owners and asset managers, and for service providers that support them. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers	UK Stewardship Code 2020
Stranded assets	Assets which have premature or unanticipated write-downs, dilutions or conversion into liabilities.	Principles of Responsible Investment
Sustainability	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.	World Commission on Environment and Development
Sustainable investing	Investment approaches that select and include investments on the basis they fulfil certain sustainability criteria and/or delivering on specific and measurable sustainability outcome.	The Investment Association responsible investment framework
Task Force on Climate-related Financial Disclosures	The TCFD was set up by the international Financial Stability Board in 2015 and its members are senior individuals from across the G20 covering a broad range of economic sectors and financial markets. It has developed a set of recommendations for consistent climate-related financial risk disclosures, for use by companies and financial institutions of all types.	TCFD
Thematic investing	The identification and allocation of capital to themes or assets related to certain environmental or social outcomes, such as clean energy, energy efficiency, or sustainable agriculture.	Principles of Responsible Investment
Voting	The exercise of voting rights on management and/or shareholder resolutions to formally express approval (or disapproval) on relevant matters. In practice, this includes taking responsibility for the way votes are cast on topics that management raises, as well as submitting resolutions as a shareholder for other shareholders to vote on (in jurisdictions where this is possible).	Principles of Responsible Investment
Weighted Average Carbon Intensity ("WACI")	Portfolio's exposure to carbon-intensive companies, expressed in tons CO_2e / £M revenue. It takes the underlying carbon intensities of portfolio companies, and weights them by portfolio allocation.	TCFD