PROFESSIONAL FINANCIAL ADVICE

Sustainable investing: an adviser's glossary

The world of sustainable investing is a sea of jargon with a constantly expanding lexicon that can leave investors and advisers confused. Our glossary aims to enhance your understanding of the latest terminology.

Active ownership
Active ownership represents actively exercising one's right as the shareholder of a company, particularly active engagement with management, and discussion on both financial and non-financial environmental, social and governance (ESG) factors.

Carbon market
A market that is created from the trading of carbon emission allowances to encourage or help companies to limit their carbon dioxide emissions. This is also known as carbon trading.

Carbon tax
Directly sets a price on carbon by defining a tax rate on greenhouse gas emissions or on the carbon content of fossil fuels.

CDP
Formerly known as the Carbon Disclosure Project, CDP runs a global environmental disclosure system in which nearly 10,000 companies – as well as cities, states, and regions – report on their risks and opportunities on climate change, water security and deforestation.

Climate Disclosure Standards Board (CDSB)
An international consortium of business and environmental NGOs with the mission to create the enabling conditions for material climate change and natural capital information to be integrated into mainstream reporting.

Conference of the Parties (COP)
The COP is the supreme decision-making body of the UN Framework Convention on Climate Change (UNFCCC). All states and countries that are parties to the convention are represented on the COP, which meets every year in a different city.

Controversial sourcing
Ethically debatable cost-driven practices of companies in their value chain.

Corporate Reporting Dialogue (CRD)
A joint protection led by the CDP, CDSB, the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) to drive better alignment of sustainability reporting frameworks, as well as with frameworks that promote further integration of non-financial and financial information.

ESG investing
ESG investing is an approach to managing assets where investors explicitly acknowledge the relevance of ESG factors in their decisions, as well as their own role as owners and creditors, with the long-term return of an investment portfolio in mind.

Global Impact Investing Network (GIIN)
The GIIN focuses on reducing barriers to impact investment by building critical infrastructure and developing activities, education and research that help accelerate the development of a coherent impact investing industry.

Global Sustainable Investment Alliance (GSIA)
Many countries have a national forum for responsible investment. The GSIA is an international collaboration of these membership-based sustainable investment organisations. It is a forum itself for advancing ESG investing across all regions and asset classes.

Green gilts
Plans for a sovereign green bond, or green gilt, were announced in November 2020. They are a form of government borrowing designed specifically to finance "projects with clearly defined environmental benefits".

Green investment
Refers to allocating capital to assets that mitigate climate change, biodiversity loss, resource inefficiency and other environmental challenges.

Greenwashing
Greenwashing is a form of marketing spin, in which a false impression is given, or misleading statements are made, to persuade the public that an organisation's products, aims or policies are more environmentally friendly than they actually are.

Impact investing
Impact investing refers to investments made into companies, organisations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.

Materiality
Financially material ESG factors that could have a significant impact – both positive and negative – on a company's business model and value drivers, such as revenue growth, margins, required capital and risk. The material factors differ from one sector to another. Examples of factors that can be material are supply chain management, environmental policy, worker health and safety, and corporate governance.

Negative screening
Negative screening means excluding companies that do not comply with specific, pre-set ESG criteria. Examples are mutual funds that exclude companies involved in the production of alcohol, tobacco or gambling products, also referred to as 'sin stocks'.

Positive screening
Positive (or affirmative) screening means that rather than excluding companies, investors select companies that meet certain ESG criteria, and/or undertake socially set positive examples of environmentally friendly products and socially responsible business practices.

Responsible investing
Responsible investing is an approach to investing that aims to incorporate ESG factors into investment decisions to better manage risk and generate sustainable, long-term returns.

Stewardship
Stewardship is 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.

Stranded assets
Stranded assets are physical assets recorded on a corporate balance sheet whose investment value cannot be recouped and must be written off. The term is commonly applied to the fossil fuel reserves of listed energy companies that would not be usable if decarbonisation targets to combat climate change are met.

TCFD
The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative, set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream filings.

Thematic investing
Sustainability-themed investments contribute to addressing social or environmental challenges by investing in companies offering solutions to these issues. The most important issues tend to be population growth, rising wealth in the developing world, natural resource scarcity, energy security, and climate change.

Triple bottom line
The triple bottom line embraces the notion of focusing on 'people, planet, profit' when making business and investment decisions, and not just on the profit motive. The term was first introduced to expand the traditional definition of a 'bottom line', which is the net profit made by a company after all its costs have been accounted for. It is also known as the 'three Ps' and provided an early framework for sustainable investing.

Value alignment
Seeking investments that are aligned with the investor's moral or social values. CB

For further climate-related definitions, turn to page 17 of this issue's special report.