The A-Z of Ethical Investing

A VivaEthical Financial Advice Publication

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Can't tell an ESG from an SRI? Think "greenwashing" is a terrible laundry accident? Confused by PRI, or the meaning of SDG? You aren't alone. Ethical Investment is thick with jargon and TLA's (Three Letter Acronyms… yes, really). VivaEthical's A-Z of Ethical Investing will help you sort out what's what.

To make this a little easier on you, we've split this Glossary into two sections, both alphabetical. The first section deals with the main concepts behind ethical investing, the core definitions if you like. The second section is everything else.

Section 1
The core definitions of ethical investing

ESG

Environmental, social, and governance

Environmental, social, and governance criteria are a set of standards for a company's operations that ethical and socially responsible investors and analysts use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, management style, executive pay, audits, internal controls, and shareholder rights.

For more detail on ESG criteria, see ESG Investing Basics.

PRI

Principles for Responsible Investing

The PRI is the world's leading independent proponent of responsible investment. As part of its activities, it seeks to understand the implications of environmental, social and governance (ESG) factors for investment and ownership decisions, and supports its international network of investor signatories in doing so.

PRI's mission is to act in the long-term interests of its signatories, of the financial markets and economies in which they operate, and of society as a whole. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice. These Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

Read more about the PRI here.

SRI

Socially Responsible Investing

Socially responsible investing, sustainable investments, green or ethical investing, is any investment strategy which seeks to consider both financial return and social/environmental good to bring about social change regarded as positive by advocates. Socially responsible investments can be made into individual companies with good social value, or through a socially conscious mutual fund or exchange-traded fund (ETF).

SDGs

Sustainable Development Goals

SDG's are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice.

A feature of the SDGs is their strong focus on means of implementation—the mobilisation of financial resources—capacity-building and technology, as well as data and institutions. The Goals recognize that tackling climate change is essential for sustainable development and poverty eradication.

Governments also develop their own national indicators to assist in monitoring progress made on the goals and targets.

Learn more here.

Section 2
Everything else

A

Active ownership

Engaging with investee entities and (with corporates) using the right to vote at Annual General Meetings to benefit clients and potentially society as a whole.

Adverse impacts

An asset manager's Principal Adverse Impacts Statement demonstrates the impact that investment decisions have on sustainability factors.

Article 6, 8 & 9 funds

Classification under the EU's Sustainable Finance Disclosure Regulation (SFDR) framework for disclosure of investment funds' sustainability characteristics.

B

Best in class

An investment approach that aims to identify companies or sovereigns with strong ESG characteristics relative to peers. Can include top or exclude worst performers.

Biodiversity

The sum of life on Earth in all its forms, from simple genetic structures, plants and trees, to animals, sea creatures and humans. Often used interchangeably with 'nature'.

C

Carbon capture and storage (CCS)

Carbon capture and storage (CCS) is the process of capturing waste CO_2 and placing it into a geological storage site in such a way that it will not enter the atmosphere and contribute to further global warming. CCS uses several technologies, including absorption, chemical looping and membrane gas separation. Primarily aimed at large industry, carbon capture has actually been used for decades for various purposes. Its long-term storage, however, is a relatively new concept in the area of climate change mitigation..

Carbon footprint

A carbon footprint is the amount of greenhouse gas emissions generated by an individual, company or country over a set time period. Although the term implies primarily the emission of carbon dioxide, it is now often taken to include all gases which cause global warming through the greenhouse effect.

In a portfolio context - the value of shares held over company market cap, multiplied by total carbon emissions for the company, to give emissions “owned”.

Carbon intensity

An entity’s carbon emissions, typically divided by its revenues, though the denominator can also be square meter, per employee, unit of production, etc.

Carbon neutral

Achieving parity between carbon emissions and removals. Easier to achieve than ‘net zero’ as it allows others to emit less CO_2 on your behalf (known as an offset).

Carbon offsetting

Compensating for emissions by paying for equivalent carbon removal by others.

Carbon pricing

Putting a price on emissions of greenhouse gases to “make the polluter pay”.

Carbon removal

Nature-based or industrial solutions that capture and store carbon.

Circular economy

Finding ways to reduce waste and pollution and keeping products and materials in use rather than throwing them away.

Clean tech

Any technology that reduces or eliminates a pollutant, whether climate related or not.

Climate change

Long-term changes in average global conditions, such as temperature and rainfall, due to the accumulation of greenhouse gases in the Earth’s atmosphere.

Climate transition

The transition to a warmer, low carbon world.

Climate transition benchmarks

Climate transition benchmarks are indices of equities or corporate bonds which aim to assist in meeting the decarbonisation objectives set by the European Union’s Sustainable Finance Action Plan. They aim to promote sustainable investment in companies that are helping to combat global warming, principally by cutting greenhouse gas emissions.

Community investment

Cash donations, project costs and donations in kind (such as the cost of volunteering) to charitable organisations in a company’s local areas, or potentially in areas where communities are impacted by production or use of a company’s products.

Controversies

Issues of investor concern across environmental, social or governance areas.

CO2e (or CO2-eq)

CO_2 equivalent – metric used to convert global warming potential of other greenhouse gases into a comparable format.

COP26

26th conference of the parties to the UN Framework Convention on Climate Change.

Corporate governance

The systems and processes by which companies are controlled.

Corruption Perception Index

A list of the world's most and least corrupt countries, published each year by Transparency International. The index draws on a wide range of surveys and sources including the African Development Bank Economist Intelligence Unit, the World Economic Forum, World Bank, and World Justice Project. The index has been published since 1995 and is widely used by investors.

D

Decarbonisation

The reduction in the carbon intensity of worldwide energy use. In line with this development, investment portfolios can also be decarbonised.

Decent work

Work that, amongst other things, is productive and delivers a fair income, security in the workplace and social protection for families.

Derivative look-through

A look-through of constituents underlying the derivative financial instruments to ensure the indirect exposure to excluded entities is limited to a maximum percentage threshold.

Divestment

Selling securities – in an ESG context, often after engagement efforts have failed.

E

Emissions trading scheme (ETS)

Market-based system for reducing the amount of greenhouse gases emitted by industrial businesses.

Engagement

Contact between an asset manager and investee entity on matters relating to ESG factors with the aim of improving practice, disclosure, or both.

Escalation

The process through which investors can apply increasing levels of pressure on companies, beyond initial engagement but prior to divestment.

Ethical investments

Using moral principles as the initial filter for the selection of investable securities.

Exclusion

The act of barring a company's securities from being purchased for a portfolio due to business activities that are deemed unethical, harmful to society, or in breach of laws or regulations.

F

Food sustainability

Aims to promote more sustainable food production and address problematic issues such as overfishing, deforestation, and the loss of biodiversity. It also addresses some of the wider ESG issues in food production, including the use of forced labor on farms and fishing boats in emerging markets, and corruption that leads to illegal burning of rainforest to clear land for cattle.

Fossil free

Definitions vary, but generally this is a label applied to funds that have some form of fossil fuel exclusion that screens out companies in key sectors.

G

Global warming

Global warming is a gradual and increasingly irreversible rise in average world temperatures at sea level, caused mostly by human activities since the industrial revolution of the 18th century.

The principal causes are the widespread burning of fossil fuels including coal, oil and gas for electricity, heating, cooling, and transportation, leading to the emission of carbon dioxide and other greenhouse gases. Unable to escape into space, these gases become trapped in the atmosphere, causing the planet to gradually warm over many decades. This, then, has an effect on climatic patterns, leading to long-term climate change that brings more storms, floods, droughts, forest fires, and more extreme temperatures. Melting ice caps bring rising sea levels that threaten coastal cities, while greenhouse gas that are absorbed by oceans make them more acidic, threatening coral and marine life.

Global Warming Potential

From a climate science perspective, GWP was developed to enable a comparison of warming impacts of different greenhouse gases.

Governance

Deals with a company's leadership, management style, executive pay, audits, internal controls, and shareholder rights.

Green bonds

Bonds with proceeds exclusively used to finance/re-finance green projects.

Green finance

Investments used to finance activities with environmental benefits.

Greenhouse gases (GHG)

Gases including carbon dioxide and methane that trap some of the heat the earth radiates back out into space, leading to the earth being warmer than it otherwise would be.

Greenwashing

Falsely claiming or exaggerating sustainable characteristics or environmental benefits provided by a fund, business practice or company. For a company, this could be doing something like claiming to have cut a carbon footprint by installing sensors that turn lights off to save energy, when the underlying business is highly polluting. "Rainbowwashing" is the same idea, with regards to use of the Sustainable Development Goals (SDGs).

H

Health and nutrition

Health and nutrition is a theme that aims to improve the nutritional value of the food and beverages that we consume, led by a global campaign to reduce their sugar content. This aims to improve human health, principally by addressing the consequences of food that contains too much sugar or other additives. In recent decades, too much sugar in food and beverages has led to an epidemic of obesity, diabetes, and heart disease across the western world.

Human rights

Human rights are the basic rights and freedoms that belong to every person in the world, from birth until death as set out by the Universal Declaration of Human Rights, adopted by the UN General Assembly in 1948. Countries and companies are compelled to respect and protect them.

Human rights due diligence

Human rights due diligence is a way for organisations to proactively manage potential and actual adverse human rights impacts with which they are involved.

I

Impact investing

In essence an impact investment or impact fund needs to meet three key criteria. Firstly, showing intentionality to have a positive impact. Secondly, identifying additionality to ensure the investment is adding a positive impact that wasn't there in the first place. Thirdly, measuring the impact both quantitatively and / or qualitatively.

Intergovernmental Panel on Climate Change (IPCC)

A UN body consisting of the world's top climate scientists and related experts.

Integrated reporting

Communicating both sustainability and financial targets and results in one report, linking them to each other.

J

Just transition

While the shift to a low carbon economy will likely boost prosperity and create jobs, there will be transitional challenges (particularly social ones), which responsible investors can help to address.

L

Living wage

The Ethical Trading Initiative defines the living wage as one that is enough to meet basic needs and to provide some discretionary income.

M

Macro stewardship

Engaging with governments, regulators and supranational organisations with the aim of seeking correction of market failures and mitigation of systemic risks to put markets on a more sustainable footing.

Micro stewardship

See Active Ownership

Millennium Development Goals (MDGs)

The Millennium Development Goals (MDGs) were eight goals to improve human society launched by the United Nations in 2000. They were mainly aimed at helping the world's poorest people, led by the starvation that was seen in many developing countries. They were succeeded by the Sustainable Developments Goals (SDGs) launched in 2015.

N

Natural capital

The world's stock of natural assets including all living things, soil, air, water, and geological assets.

Net Zero Asset Owner Alliance

A UN-convened group of institutional investors who have committed to transitioning their investment portfolios to net zero GHG emissions by 2050.

Net Zero Asset Managers Initiative

A UN-convened group of asset managers who have committed to transitioning their investment portfolios to net zero GHG emissions by 2050.

Net zero emissions

Net zero emissions, or carbon neutrality, occurs when an entity has reduced greenhouse gas emissions to the maximum possible level so that the residual emissions can be neutralized by carbon removal. The concept of it was framed by the Intergovernmental Panel on Climate Change (IPCC) in 2018 as the principal means of meeting the Paris Agreement of 2015. This seeks to limit global warming to a maximum of 2 degrees Celsius above pre-industrial levels by 2100, and ideally to 1.5 degrees.

Net Zero target

Net zero is achieved by reducing the level of GHG emissions a company or country creates to as close to zero as possible, with any residual amounts emitted matched by removal.

Norms-based exclusions

Excluding securities from an investment universe due to a lack of compliance with established international standards e.g. human rights.

Negative emissions technologies

Technologies that enable carbon to be removed from the atmosphere e.g. machines that capture carbon dioxide from the air and sequester it.

P

Paris Agreement

Breakthrough international treaty on climate change adopted at COP21, Paris, 2015.

PFAS

PFAS (per- and polyfluoroalkyl substances) is an umbrella classification that includes thousands (more than 4,700) of chemicals with similar molecular structures.

PFAS are man-made chemicals that do not occur in nature and have been commercially manufactured since the 1940s. They are highly resistant to heat, water, and oil, which explains their popularity among industrial processes as well as among consumer products. They can be found in everything from non-stick cookware and firefighting foam to electronics, food packaging, and stain-resistant textiles. However, the strong chemical bonds that make them so useful also mean they are virtually indestructible in the environment.

S

Science-Based Targets Initiative (SBTi)

Respected international body that accredits corporate targets on climate with being science-aligned (i.e. with the Paris Agreement goal of limiting warming to 1.5 degrees Celsius).

Scope 1, 2 and 3 emissions

Categorisation of GHG emissions into where they are emitted along a company's value chain: Scope 1 - direct emissions, scope 2 - indirect emissions from the generation of purchased electricity, scope 3 - other indirect emissions e.g. in supply chain or by customers' use of product.

Sin stocks

Sin stocks are shares in companies involved in activities that are considered unethical, such as alcohol, tobacco, gambling, adult entertainment, or weapons.

Social bonds

Bonds with proceeds exclusively used to finance/re-finance social projects.

Social infrastructure

Facilities that support social services such as healthcare and education.

Social taxonomy

A scheme of classification that establishes a list of socially sustainable economic activities, as currently being produced by the EU.

Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits.

Stewardship code

The stewardship code is a code requiring institutional investors to be transparent about their investment processes, engage with investee companies and vote at shareholders' meetings.

Stranded assets

A stranded asset is anything, e.g. a piece of equipment or a resource, that once had value or produced income but no longer does. This is usually due to some external change, including developments in technology, markets or societal habits.

Sustainability

All activity that meets the needs of the present generation without compromising the ability of future generations to meet their needs. Derived from this definition of sustainable development, sustainable investing is broadly defined as the practice of using environmental, social and governance (ESG) factors when making investment decisions about which stocks or bonds to buy.

Sustainability bonds

Bonds with proceeds exclusively used to finance / re-finance sustainability projects.

Sustainable Finance Disclosure Regulation (SFDR)

A set of European Union rules that came into effect on March 10, 2021, with the goal of making the sustainability profile of funds more comparable and easier for investors to understand.

Sustainable Taxonomy

A scheme of classification that aims to enhance transparency concerning sustainable activities.

T

Tar sands

A type of unconventional fossil fuel that accounts for significantly higher emissions per barrel than conventional oil.

TCFD

The Task Force on Climate-related Financial Disclosures – created to increase and improve corporate reporting of climate-related financial decision-making information.

Thermal coal

More commonly referred to as just "coal". Distinct from coking/ metallurgical coal, which has a higher energy content and is used to make iron and steel.

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.

U

Unconventional fossil fuels

Typically refers to oil/tar sands, shale oil & gas, deepwater oil and Arctic oil.

UN Global Compact (UNGC)

A corporate sustainability initiative that calls on businesses to align with universal principles on ESG issues and to take action to advance broader societal goals. Investors can use the UNGC for investment by determining whether companies are following them or in breach. The Principles are:

Human Rights

- **Principle 1**: Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2**: Make sure that they are not complicit in human rights abuses.

Labor

- **Principle 3**: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

- **Principle 4**: The elimination of all forms of forced and compulsory labor;
- **Principle 5**: The effective abolition of child labor; and
- **Principle 6**: The elimination of discrimination in respect of employment and occupation.

Environment

- **Principle 7**: Businesses should support a precautionary approach to environmental challenges;
- **Principle 8**: Undertake initiatives to promote greater environmental responsibility; and
- **Principle 9**: Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- **Principle 10**: Businesses should work against corruption in all its forms, including extortion and bribery.

UN Guiding Principles on Business and Human Rights (UNGP)

The UN Guiding Principles on Business and Human Rights are a set of guidelines for States and companies to prevent, address, and remedy human rights abuses committed in business operations. They are also called the Ruggie Principles and were created in 2011.

W

Water sustainability

Water sustainability refers to the availability of fresh water for human consumption and use in agriculture and industrial processes. Sea water is by far the most abundant resource on the planet, covering more than 70% of the Earth's surface, but it cannot be used as drinking water without desalination. Fresh water covers only 2.75% of the planet, of which 1.75–2% is frozen in glaciers and the polar regions, most of which is trapped in Antarctica. Only 0.5%–0.75% of all the Earth's fresh water is accessible on the ground, of which about 87% is contained in lakes.

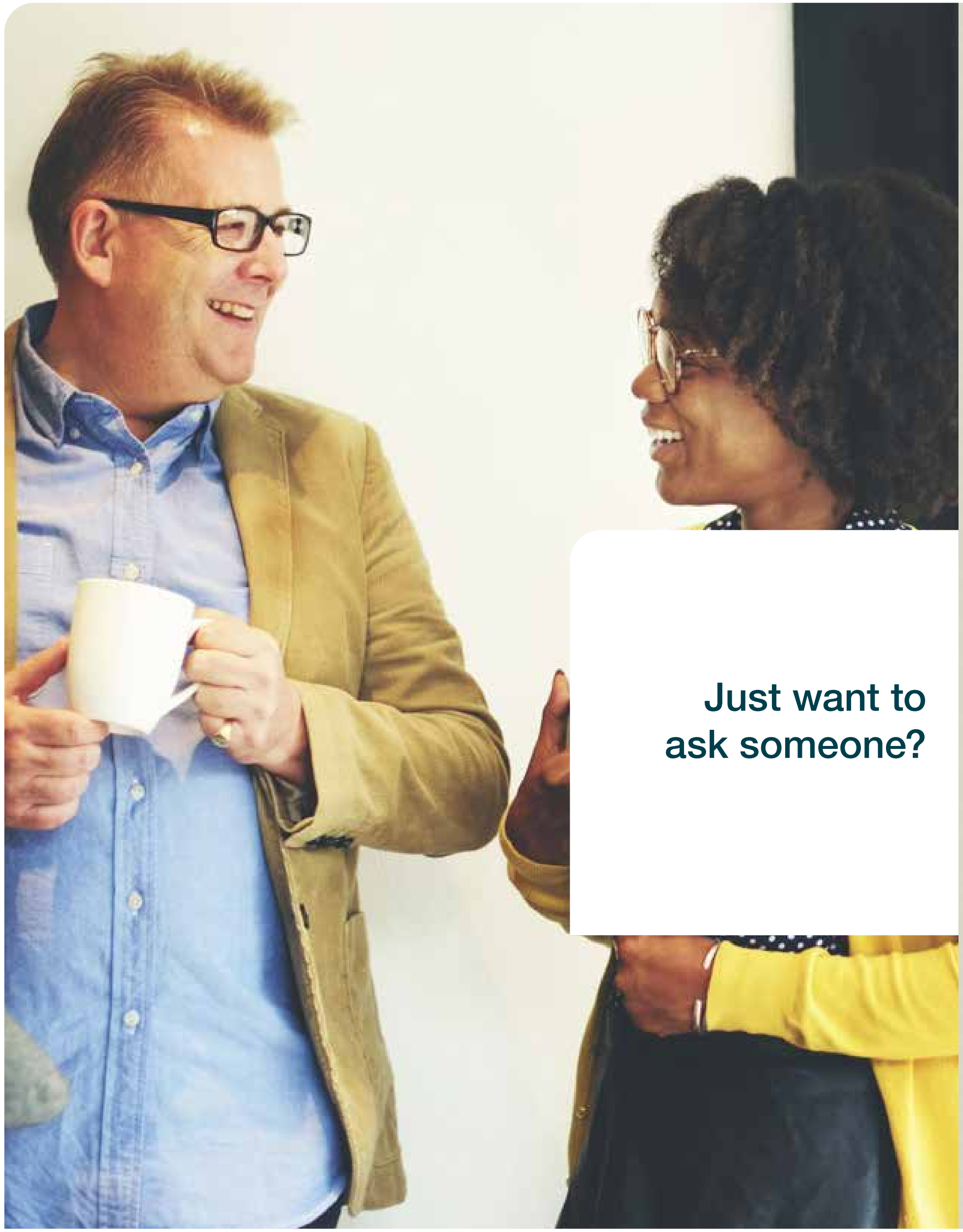
Definition sources:

Aviva Investors Pacific Pty Ltd
www.avivainvestors.com/en-au/

Robeco Hong Kong Limited
www.robeco.con/au/

About the PRI
www.unpri.org/about-us/about-the-pri

Take Action for the Sustainable Development Goals
www.un.org/sustainabledevelopment/sustainable-development-goals/



Just want to ask someone?

Ethical investing can be difficult to navigate, but before you put it in the 'too hard basket', remember you can always get help from a financial advice professional, like VivaEthical.

Feel free to ask me any questions you have about ethical investing. I'm always happy to have a chat about your options.

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