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.

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 the rules and procedures for decision making.

CSR (Corporate Social Responsibility) - An approach within a business that focuses on doing good by considering its larger economic, social, environmental, and ethical impacts through a channel within the organization. This is driven by a variety of reasons, including mitigating risk, decreasing costs, and improving brand image and competitiveness. Some companies have this value alignment within the entire decision-making process, referred to as Corporate Shared Value.

Custom Direct Indexes – Personalized direct indexed portfolios (see below) based on an investor's financial circumstances and impact preferences and can be adjusted as an investor's circumstances change. (See VADIS)

Direct Indexing – Attempts to replicate the performance of an index by purchasing the underlying individual equities instead of using an ETF or mutual fund in an investor's portfolio.

Divestment - Selling or disposing of shares or other assets. Corporate behavior can lead investors to reduce or eliminate holdings in certain investments. 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. More recently, a campaign has focused on fossil fuel extraction companies.

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.

ESG (Environmental, Social, Governance) - Investment analysis that incorporates environmental, social, and corporate governance factors into the investment process. ESG terminology was developed and promulgated 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. An ETF experiences price changes throughout the day as it is bought and sold (like a stock).

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.

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

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

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.

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 now more commonly referred to as "ESG Factor Analysis" and are being used to identify and invest in companies that are leaders in adopting clean technologies, managing environmental impacts, and demonstrating high levels of corporate citizenship. 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 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).

Securities and Exchange Commission (SEC) - A US government oversight agency responsible for regulating the securities markets and protecting investors. Federal regulators supervising investment advisors and investment companies.

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 director’s act. 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.

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.

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 extracted 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, 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.

VADIS – Latin for "Where are you going?" The First Affirmative Values-Aligned Direct Index Solution is a Custom Direct-Index solution.