

## Glossary of Responsible Investing Terms

*Keeping up with the growing array of investment products and services in the field of responsible investing can be confusing. This glossary is designed to help you understand some of the more common terms you may encounter.*

**Active ownership.** Voting company shares and/or engaging corporate managers and boards of directors in dialogue on environmental, social, and corporate governance issues, as well as on business strategy issues. Investors increasingly pursue active ownership efforts to reduce risk and enhance long-term shareholder value.

**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 issues. Typically involves positive or negative screening, or portfolio tilting.

**Ceres.** Nonprofit organization that leads a national coalition of investors, environmental organizations, and other public interest groups working with companies to address sustainability challenges such as global climate change and water scarcity.

**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 have the potential to provide performance at least matching that of traditional alternatives while requiring 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.** Directs capital from investors and lenders to communities that are underserved by traditional financial services institutions. Community investing 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 to business which takes into account economic, social, environmental, and ethical impacts for a variety of reasons, including mitigating risk, decreasing costs, and improving brand image and competitiveness.

**Divestment.** Selling or disposing of shares or other assets. Changes in corporate behavior or investment policies can lead investors to reduce or eliminate investments. Investors who practice active ownership often view divestment as the last resort. Gained prominence during the boycott of companies doing business in South Africa, prior to the dismantling of apartheid. More recently, a campaign has begun to encourage divestment from companies doing business in Sudan.

**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).** An investment approach which incorporates environmental, social, and governance factors into the investment process. ESG terminology was developed and promulgated by the United Nations Principles for Responsible Investing (UNPRI).

**Ethical Investing.** Investment philosophy guided by moral values, ethical codes, or religious beliefs. This practice has traditionally been associated with negative screening.

**Freshfields Report.** The report, *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment* (October 2005), provided assurance to institutional investors that the consideration of ESG issues is firmly grounded within the bounds of fiduciary duty. This landmark report was followed by *Fiduciary Responsibility—Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment* (2009). The report provides a legal roadmap for fiduciaries looking for concrete steps to operationalize their commitment to responsible investment.

**Global Reporting Initiative.** The Global Reporting Initiative (GRI) is a network-based organization whose goals include the mainstreaming of disclosure on environmental, social, and governance performance. GRI's Reporting Framework is developed through a consensus-seeking, multi-stakeholder process. The Reporting Framework sets out the principles and Key Performance Indicators that organizations can use to measure and report on economic, environmental, and social performance.

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

**Interfaith Center on Corporate Responsibility (ICCR).** A coalition of faith-based institutional investors.

**Impact Investing.** Investment strategies providing 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 and which are often unregistered and run by the Poor or Very Poor.

**Mission-Based Investing.** The incorporation of an organization's mission within its investment decision-making process.

**Moskowitz Prize.** The only global award that recognizes outstanding quantitative research in areas of interest to responsible investors. Since 1996, prize winners have explored topics like shareholder activism, socially responsible

mutual funds, and the broader topic of whether social responsibility in investing is an inhibitor or a catalyst to financial performance. The Moskowitz Prize is awarded annually in the fall at The SRI Conference.

**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 being used more and more frequently to invest in companies that are leaders in adopting clean technologies, managing environmental impacts, and integrating exceptional social and governance practices.

**Proxy Voting.** The delegation of voting rights from entitled voters who do not attend shareholders' meetings to delegates who vote on their behalf. Proxy voting allows shareholders to exercise their right to vote without committing the time involved in actually attending meetings.

**Positive Screening.** Screening may involve including strong corporate social responsibility (CSR) performers, or otherwise incorporating CSR factors into the process of investment analysis and management. 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.

**Principles for Responsible Investment (PRI).** The United Nations-backed Principles for Responsible Investment Initiative (PRI) 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 so better align their 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."

**Shareowner / Shareholder Advocacy.** Responsible investors who take an active role as the owners of corporations, include talking (or "dialoguing") with companies on issues of social, environmental, or governance concerns. Shareholder 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.** A shareholder request that the company or its board of directors take particular action. 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 by shareholders in advance of the annual meeting or disallowed by regulators.

**Socially Screened or SRI Mutual Funds.** As of 2010, there were 250 socially screened mutual funds in the U.S. with assets of \$316 billion. By contrast, there were just 55 such funds in 1995 with \$12 billion in assets. SRI mutual funds span

a range of investments, including domestic and international investments, and a growing range of products are available, including hedge funds and ETFs (exchange traded funds).

**SRI.** Sustainable, Responsible, Impact investing (SRI) 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 issues (commonly referred to as “ESG”)—in both the public and private markets. SRI is also known as “green” or “values-based” or “impact” investing, or simply as “responsible” investing.

**Sustainability Report.** A report produced by an organization to inform stakeholders about its policies, programs, and performance regarding environmental, social, and economic issues. Sustainability reports, also known as corporate citizenship reports, or CSR reports, are usually voluntary and relatively few are independently audited or integrated into financial reports—though there is a trend toward doing integrations and assurance.

**Sustainable Development.** The concept of meeting present needs without compromising the ability of future generations to meet their needs. It encompasses social welfare, 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 they add, but also on the environmental and social value they add or destroy.

**Universal Owner.** A large investor who 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 as a whole—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.

**US SIF – The Forum for Sustainable and Responsible Investing.** US SIF, formerly the Social Investment Forum, is the membership association for professionals, firms, institutions and organizations engaged in socially responsible and sustainable investing in the United States. US SIF and its members advance investment practices that consider environmental, social, and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.

SOURCES: [www.ceres.org](http://www.ceres.org); [www.mercer.com/ri](http://www.mercer.com/ri); [www.parnassus.com](http://www.parnassus.com); [www.socialinvest.org](http://www.socialinvest.org)

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