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2017

Glossary of Responsible Investment Terms

Active Ownership: Investors actively using their voting rights and/or directly engaging with company management on ESG issues, as well as wider matters of business strategy, to ensure the company's interests are aligned with their own. Active ownership efforts can help reduce risk and enhance long-term shareowner value.

Best-in-Class: Focusing investments on companies that have historically performed better than their peers within a particular industry or sector, based on analysis of ESG factors. This typically involves positive or negative screening.

Bottom-Up Integration: This is the integration of ESG factors into security-specific fundamental analysis in the context of security valuation and selection. Investors may apply bottom-up ESG techniques to inform their assessment of a particular company's management quality, growth prospects and risk profile.

Carbon Neutrality: Carbon neutrality, or having a net zero carbon footprint, refers to achieving net zero carbon emissions by balancing a measured amount of carbon released with an equivalent amount sequestered or offset, or buying enough carbon credits to make up the difference. It is used in the context of carbon dioxide-releasing processes associated with transportation, energy production, and industrial processes, such as production of carbon neutral fuel.

Clean Energy: Energy from non-polluting sources, including solar, wind, and water.

Cleantech: An investment theme, rather than an industrial sector, that may include investments in agriculture, energy & manufacturing. It represents a range of products and services that either reduce or eliminate ecological impact, or require lower resource inputs.

Climate Risks: Risks stemming from climate change that have the potential to affect companies, industries and whole economies. There are a range of business risks associated with climate change, including regulatory developments, growing natural resource scarcity and potential reputational damage.

Community Development Financial Institutions (CDFI): An institution run through the US Treasury that creates a fund to invest federal money with private sector capital. Supporting change in economically disadvantaged communities, it focuses on mission driven financial institutions.

Community Investing/Community Impact Investing: Providing capital to communities that are underserved by traditional sources of investment. Community investing generally provides credit, equity, and basic banking functions to communities that would otherwise have no access.

Corporate Engagement: Using shareholder power to directly influence corporate behavior or decision-making. This includes actions such as communicating with company management, filing shareholder proposals and proxy voting.

Corporate Governance: Procedures and processes by which an organization is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization and identifies procedures for decision making.

Corporate Social Responsibility (CSR): 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 in certain investments. This is currently most readily associated with divestment from companies involved in the extraction of fossil fuels. Active ownership investors often view divestment as a last resort.

Double Bottom Line: Measurement of financial performance in terms of financial profit or loss along with positive social impact.

Engagement: Regular and sustained discourse with a company or regulator and other central authorities in order to seek long-term positive ESG related outcomes.

Environmental Justice: The fair treatment and inclusion of all people, regardless of their race, color, national origin or socio-economic stature. This inclusion is comprehensive of all issues, from development, implementation and enforcement of environmental laws, regulations, and policies.

Environmental, Social, Governance (ESG): Investment analysis that 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).

ESG Integration: It is generally understood to mean the incorporation of environmental, social and governance factors within financial analysis and decision-making for the purposes of enhancing investment performance.

Ethical Investing: An investment philosophy guided by moral values, ethical codes, or religious beliefs, generally associated with negative screening.

Extra-Financial Factors: Factors beyond those included in traditional financial analysis. In particular, environmental, social and governance considerations taken into account when evaluating the potential of an investment.

Financial Materiality: Financially material is any factor which might have a present or future impact on an organization's value drivers or competitive position and thus on long-term shareholder value creation.

Free, Prior and Informed Consent (FPIC): Named by the Forest Peoples Program, this stipulates 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 its use.

Freshfields Report: Freshfields is an international law firm based in London. The original report, A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment (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 Compact (United Nations Global Compact): A corporate sustainability initiative, asking companies to align strategies and operations with universal principles on human rights, labor practices, environmental concerns and anti-corruption,

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while taking actions that advance societal goals.

Green Investing: An investment philosophy that considers the environmental impact of an underlying investment.

Impact Investing: An investment philosophy which supports companies that are working to provide significant societal or environmental benefit, in addition to generating a financial return.

Materiality: It is a fundamental principal of mandated disclosure in the United States. The concept of materiality recognizes that certain forms of ESG information can be considered important to investors in making investment decisions.

Microcredit: Small, typically low interest, loans to entrepreneurs who have little or no access to capital or financing, typically within developing counties.

Mission-Based Investing: Incorporating and reflecting an organization's mission in its investment decision-making process. Generally, these organizations are 501(c) (3) nonprofits.

Moskowitz Prize: The only global academic award that recognizes outstanding quantitative research in areas of interest to responsible investors. Since 1996, prize winners have explored topics like shareowner engagement and the question of whether SRI investment strategies inhibit or enhance financial performance. The Moskowitz Prize is awarded annually by The Haas School of Business at UC Berkeley.

Negative Screening: The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.

Norms-Based Screening: Screening of investments against minimum standards of business practice based on international norms.

Positive Screening: Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.

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 actually attend company annual meetings.

Qualitative Analysis: Analysis of an organization's policies, practices, behaviors and impacts that may help portfolio managers avoid undesirable investments and identify the best managed organizations in each industry group. Often used inter-changeably with "positive screening."

Responsible Investment: Responsible Investment is the incorporation of ESG factors into the selection and management of investments. Over time, it has come to encompass a range of strategies including ESG integration, thematic investing, ethical investing, socially responsible investing, sustainable investing, green investing, community investing, mission-based investing and impact investing, among others.

Shareholder Advocacy: Shareowner advocacy involves the filing and co-filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, gender/racial discrimination, pollution and labor practices.

Socially Screened Funds: These funds integrate ESG analysis into the investment process, generally seeking to avoid owning companies that are deemed harmful to society or the environment, while seeking to own the most responsible companies with the highest potential for return on investment. Such funds may represent any asset class and a variety of different investment strategies.

Socially Responsible Investment (SRI): Socially Responsible Investment (or Sustainable, and Responsible and Impact Investment) is the process of integrating societal concerns, personal values or an institutional mission into investment decision-making. It is an investment process that considers the social and environmental consequences of investments within financial analysis.

Stranded Assets: Stranded assets refers to 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 or burned and 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 issues. Sustainability reports are usually voluntary, and are sometimes independently audited and/or integrated into financial reports.

Sustainable Development: The concept of meeting present needs without compromising future generations. It encompasses social welfare, protection of the environment, efficient use of natural resources, and economic well-being.

Sustainable Investing: Long-term investment in a company, asset or sector that makes a positive contribution to environment, economy or society, in order to improve conditions over time.

Thematic Investment: Thematic investment involves selecting assets on the basis of investment themes such as climate change, gender diversity or social justice.

Top-Down Integration: This is the development and execution of an investment thesis based on a general view of how ESG factors may create macro & sector investment risks or opportunities.

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 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.

Sources: www.ceres.org; www.mercer.com/ri; www.parnassus.com; www.ussif.org; www.mandg.com; www.sasb.org; www.irrcinstitute.org

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