Schroders

Marketing material
Compiled by the Sustainable Investment Team

50 terms every sustainable investor should understand

Sustainability, once a fringe consideration, has become a core concern for many investors.

The impact companies have on the world – from climate change through to the treatment of employees – is making headlines every day. Those that adapt should thrive; those that don't, will not. This will have an obvious impact on profits and therefore the share and bond prices of those companies.

Investors are paying ever-closer attention. Our recent Schroders Global Investor Study 2018, which gathered the views of 20,000 investors, offers strong evidence of this. It found that 67% of investors had increased the amounts they put into sustainable investments in the past five years.

However, 57% of investors also said a lack of information prevents them from investing, or investing more, in sustainable investments.

Even if the principles are fairly simple, we recognise that the field has become a sea of acronyms and technical terms, which can leave investors confused.

That's where we can help. We've put together a glossary of the key terms every sustainable investor, or anyone new to the field, needs to know.

2°C limit or "2 degrees"

It is widely agreed that limiting the average rise in global temperatures to less than 2°C above pre-industrial levels by the end of this century may help stave off the worst of the natural disasters associated with global warming. Although there is some disagreement as to whether this limit is sufficient or even possible, the idea of restricting global warming to less than a 2°C rise has been around for decades.

Active ownership

Actively exercising your shareholder rights and engaging with investee companies to encourage responsible corporate behaviour and improve long-term shareholder value.

Carbon footprint

A measure of a group, individual or a company's total greenhouse gas emissions.

Carbon pricing

The cost of emitting CO_2 into the atmosphere, either in the form of a fee per tonne of CO_2 emitted, or an incentive that's offered for emitting less. Putting an economic cost on emissions is widely considered the most efficient way to encourage polluters to reduce what they release into the atmosphere.

Carbon Value-at-Risk (VaR)[1]

A model developed by Schroders to measure how carbon pricing will affect a company's profits. It estimates the impact on companies' earnings of raising carbon prices to $100 a tonne. Crucially it includes emissions in the supply chain, which can account for 90% of the carbon footprint in some industries.

Clean technology

A range of products, services and processes that reduce the use of natural resources, cut or eliminate emissions and waste. It was considered a niche area of investment two decades ago but has become a focus for most major companies. Electric vehicles is one example.

Climate Progress Dashboard[2]

Schroders' proprietary tool which tracks the progress being made to limit the rise in global temperatures to 2oC. The dashboard focuses on 12 objective indicators, from political action through to carbon prices and fossil fuel use, and currently points to a rise of 3.8oC. The information can help investors to understand the scale of change required and to identify areas of investment risk and opportunity.

[1] www.schroders.com/carbon-var
[2] www.schroders.com/climate-progress-dashboard

Climate change
The rapid environmental change that's attributed to the emission of carbon dioxide into the atmosphere from using fossil fuels. If you're concerned about climate change, you can invest in companies that provide products or services to enable adaption to, or the mitigation of the effects of climate change.

COP
Conference of the Parties, the highest decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC) which meets annually to implement the convention.

Corporate governance
The system by which a company is managed, designed to ensure management acts in the best interests of its shareholders. Good corporate governance spans a wide range of factors from board independence and remuneration practices, to capital allocation and accounting practices.

Corporate responsibility
A company's responsibility to operate its business in a way that does not harm the environment or society as a whole.

Corruption
Dishonest activities including bribery and fraud that can have a devastating effect on a company's fortunes.

Diversity and inclusion
Diversity refers to the differences people may have in terms of their gender, age, race, sexual orientation, disability, religion, beliefs or other characteristics. Inclusion is about welcoming and celebrating diversity, calling out inequality and ensuring people feeling valued and respected.

Divestment
The sale of any investment related to controversial activities for social or political goals. For example, investors divested from South African assets during the apartheid era in protest against the regime.

Engagement
A purposeful dialogue between a company and its shareholders that aims to enhance and protect the value of investments. This might take place to seek additional information about a company's practices or to encourage improvements in performance and processes.

Employee relations
The policies and processes governing the relationship between an employer and its employers. Companies have a responsibility to treat employees fairly, with dignity and respect.

Environmental factors
This is the "E" of the term "ESG" (environmental, social and governance) and concerns issues related to resource use, pollution, climate change, energy use, waste management and other physical environmental challenges and opportunities.

Ethical investing
An investment strategy in which you invest in line with your ethical principles and exclude companies that you deem to be unethical.

ESG integration
An investment approach that takes into consideration a range of sustainability and ESG-related risks and opportunities in addition to traditional financial analysis.

ESG fund ratings
A third party rating that looks at a fund's underlying holdings and attempts to quantify its overall ESG credentials based on some specific metrics. The choice of metrics and therefore resulting rating may differ amongst different ESG ratings providers.

ESG indices
Indices traditionally track the performance of a basket of bonds or shares, such as the FTSE 100. A growing number of indices track investments by screening out certain industries or, more recently, by evaluating which companies qualify based on ESG measures. FTSE4Good indices, for example, exclude companies that do not meet specific ESG criteria.

Fossil fuels
A natural energy source, such as coal, oil and gas. The gases released from burning these fuels (such as carbon dioxide) are widely believed to be the leading cause of climate change.

Governance factors
This is the "G" in "ESG" and is about assessing how well a company is run. See the definition of "corporate governance" above for further information.

Green bond
A bond in which proceeds are used to fund new and existing projects with environmental benefits such as renewable energy and energy efficiency projects.

Greenwashing
Falsely communicating the environmental benefits of a product, service or organisation in order to make a company seem more environmentally-friendly than it really is.

Human rights

Basic rights that belong to all human beings. They include the right to life, liberty, freedom from slavery and torture, and freedom of opinion and expression. The UN Declaration on Human Rights[3] is widely recognised as a benchmark of these basic standards.

Impact investing

Investments that are made with the primary goal of achieving specific, positive social benefits while also delivering a financial return. Impact investments create a direct link between portfolio investment and socially beneficial activities, and historically most of the activity has occurred in unlisted assets.

Impact measurement

This is not the same as impact investing. It is the measurement of how companies' activities affect the world both positively and negatively. Schroders developed SustainEx for this purpose. It measures the effect on companies' profitability if their negative social or environmental impacts or benefits were recognised financially.

Integrated reporting

Company reporting that articulates the relationship between a company's strategy, governance and performance, and how this creates value for a range of stakeholders. The International Integrated Reporting Council[4] is widely recognised as the core standard in this area.

Modern slavery

Although no standard definition exists, modern slavery can broadly be thought of as the exploitation of people who are coerced into an activity by someone who "controls" them, often with violence. It can take many forms including forced or bonded labour, early or forced marriage or human and organ trafficking.

Over-boarding

When a board member takes on too many board roles such that his/her ability to appropriately distribute their time, and effectively discharge their responsibilities to each board, is questioned.

Paris Agreement

A global commitment, agreed at COP 21 in Paris in 2015, to limit global warming to below 2°C.

Physical risks of climate change[5]

The risk posed by climate events on a company's physical assets such as supplies and equipment, its supply chain, operations, markets and customers. Schroders' physical risk framework calculates what businesses would have to pay to insure their physical assets against hazards caused by rising global temperatures and weather disruption.

Renewable energy

Energy collected from resources that are naturally replenished such as sunlight, wind, water and geothermal heat.

Responsible investing

An investment approach that considers ESG-related risks and opportunities as part of its investment process and includes engagement and voting in order to generate sustainable, long-term financial returns with consideration for society and the environment.

Screening

An investment approach used to filter companies based on pre-defined criteria before investment. As an investor, you can use a negative screen (in which you deliberately exclude certain companies because of their involvement in undesirable activities or sectors) or a positive screen (in which you select companies based on their sustainability practices). In the jargon, this can also be a "best-in-class investment" – where you only invest in companies that lead their peer groups in terms of sustainability practices and performance.

[3] https://www.un.org/en/universal-declaration-human-rights
[4] https://integratedreporting.org/the-iirc-2/
[5] www.schroders.com/climate-change-physical-risks

Shareholder activism

A public form of engagement whereby investors use their shareholdings to promote change at a company, typically at a transformational level. It tends to be a more confrontational approach to bring about change.

Share blocking

When restrictions are placed on the trading of shares which are to be voted on prior to an annual general meeting.

Sin stocks

Stocks of companies associated with activities considered to be unethical or immoral, such as tobacco, alcohol, gambling and adult entertainment.

Social factors

Issues related to how a company interacts with the communities it operates in, its suppliers, employees and customers. These include, for example, labour standards, health and safety, supply chain management and nutrition and obesity.

Stewardship

An ongoing and purposeful dialogue between shareholders and boards that aims to ensure a company's long-term strategy and day-to-day management is effective and aligned with shareholders' interests. It includes monitoring a company's practices and performance, engaging on areas of concern and voting on shares held to ensure management is acting in the long-term best interests of its shareholders. Good stewardship should help to enhance and protect the value of investments.

Stewardship codes

A set of standards that help set stewardship expectations for asset managers and asset owners. These codes are established by local regulators on a country by country basis.

Stranded assets

Fossil fuel assets that risk being "stranded" or becoming uneconomic in a lower demand scenario created, for example, by lower emissions guidelines or regulation.

Sustainable investing

An investment approach in which a company's sustainability practices are paramount to the investment decision and in which ESG analysis forms a cornerstone of the investment process.

Thematic investing

Investing in companies that can be classified under a particular investment theme such as renewable energy, waste and water management, education or healthcare innovation.

Transition risk

The financial risks that could result from significant policy, legal, technology and market changes as we transition to a lower-carbon global economy and climate resilient future.

UN Principles for Responsible Investing (PRI)

A voluntary set of principles, backed by the UN, under which signatories commit to integrating ESG factors into their investment decisions. Further information can be found on the UN PRI website.

UN Sustainable Development Goals (SDG)

A collection of 17 goals reflecting the biggest challenges facing global societies, environments and economies today.

Values-based investing

Investing that prioritises an investor's ethical objectives, rather than simply maximising financial returns.

Voting rights

Equity investors typically have the right to vote at annual and extraordinary general meetings (AGMs and EGMs) on issues such as an individual director's appointment, remuneration or mergers and acquisitions (depending on a country's legal framework).

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