Glossary: Understanding ESG jargon

The environmental, social and governance (ESG) investing landscape is filled with terms and jargon that may seem incomprehensible to the average advisor or investor. This glossary defines some of the more commonly encountered terms.

+ **Active ownership** – An approach that uses the rights and position of asset ownership to influence the activities or behaviours of the issuing entity. This approach is most commonly applied in listed equities but can be exercised in other asset classes.
+ **Best in class** – The inclusion of investment opportunities demonstrating higher performance on ESG factors than their peers.
+ **Carbon footprint** – The measurement of an entity's total greenhouse gas emissions.
+ **Carbon pricing** – The assignment of a value to greenhouse gas emissions, particularly carbon dioxide emissions, as a mechanism to account for and quantify such emissions and the ultimate responsibility for the environmental cost.
+ **Climate change** – Significant long-term change in the climate of a given region. Global scientific consensus is that the planet is currently experiencing a change in climate with over 97% of actively publishing climate scientists agreeing that this is the case.
+ **Divestment** – The intentional removal of holdings from an investment strategy as a tool to both highlight an issue and to indicate the strategy's directionality on the issue. The term is most frequently associated with fossil fuels.
+ **Echo voting** – A system through which the proxies of a passive investment strategy are voted at the direction of an actively managed investment strategy.
+ **Environmental factors** – Factors related to environmental performance used in the investment evaluation process. These include data points encompassing areas such as emissions, water use, energy consumption, waste generation, etc.
+ **ESG** – An acronym standing for environmental, social, and governance.
+ **ESG integration** – The integration of material and relevant environment, social, and/or governance factors into the investment analysis process to better evaluate investment risk and opportunity.
+ **Exclusionary screening** – The intentional exclusion of investment opportunities based on industry or geographic exposure, non-financial performance indicators, moral considerations, or other elements of concern to a defined set of investors.
+ **Fossil fuel** – An all-encompassing term used to describe coal, oil, petroleum, natural gas and other hydrocarbons used to generate energy.
+ **Fossil fuel free** – An investment strategy that intentionally excludes investments with ties to the fossil fuel industry. This typically includes exploration, extraction, refining, transportation and sale of fossil fuels as well as energy production based on such fuels but may be extended to include more indirect or peripheral participants in the fossil fuel industry.
+ **Gender lens investing** – The allocation of capital to investment strategies that directly benefit women and girls by enhancing their access to opportunities, contributing to their physical wellbeing, enhancing their safety and security, and/or promoting a better life.
+ **Governance factors** – Factors related to the governance structure of an investment opportunity. These include data points such as executive compensation, board composition, shareholder access, etc.
+ **Green bonds** – Bonds issued in which the use of proceeds includes the funding of new or existing projects with environmental benefits such as renewable energy, energy efficiency projects, clean water, or mass transit. Green bonds can be self-labeled under the auspices of programs such as the Green Bond Principles or the Climate Bonds Initiative or they may be unlabeled.
+ **Green investing** – An investment approach that emphasizes criteria relating to the environmental impact of the underlying investment.
+ **Greenwashing** – Falsely communicating the environmental aspects of a company to make it seem more environmentally friendly than it is.
+ **Impact investing** – The allocation of capital to strategies seeking intentional and measurable positive economic, social, and/or environmental outcomes in addition to a market rate return.
+ **Place based investing** – The allocation of capital to investment strategies that directly benefit a defined geographic region.

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- **Proxy voting** – A process through which shareholders designate a representative to vote their shares in a listed company. Shareholders vote on issues such as electing directors to the board, mergers and acquisitions, board remuneration and capital measures.
- **Renewable energy** – Energy derived from renewable sources such as wind, solar, hydro and geothermal.
- **Responsible investing** – A term used to describe an approach to ESG investing that focuses largely on ESG integrated criteria. The term is often used to describe any strategy encompassing ESG factors.
- **Shareholder engagement** – The process of engaging with an entity as a shareholder to begin or continue a dialogue related to issues of concern to investors including ESG practices, disclosure, and other corporate behaviours.
- **Social equity** – A broad term used to encompass issues related to the provision of equal opportunity and access to traditionally disadvantaged populations including women, minorities, LGBTQ+, veterans, and individuals with disabilities, as well as regionally disadvantaged populations.
- **Social factors** – Factors related to social performance used in the investment evaluation process. These include data points encompassing areas such as diversity, human rights, labour relations, etc.
- **Socially responsible investing (SRI)** – A term used to describe an approach to ESG investing that focuses largely on exclusionary criteria. SRI has been used as a descriptive term for over three decades and is often used to describe any strategy encompassing ESG factors.
- **Stranded asset** – An asset that loses value or turns into a liability before the end of its expected economic life. In the context of fossil fuels, stranded assets are those fuel reserves that will not be able to be extracted if action is taken to address climate change. As a result, investments with significant exposure to stranded assets may be negatively affected.
- **Sustainable investing** – A term used to describe an approach to ESG investing that focuses largely on positive inclusionary criteria. The term is often used to describe any strategy encompassing ESG factors that has a strong emphasis on environmental factors.
- **Thematic investing** – A term used to describe an approach to investing that focuses on clearly defined themes. In the context of ESG it is used to refer to strategies that are focused on discrete concepts such as clean tech, renewable energy, water, etc., or a strategy that is based on a set of faith-based guidelines.
- **United Nations Sustainable Development Goals** – A set of 17 goals promulgated and supported by the United Nations that attempt to provide a path to address global challenges such as poverty, inequality, climate change and environmental degradation to achieve a more sustainable global future.
- **Universal owner** – An institutional investor whose portfolio typically encompasses the entire market. As a result, the investor is exposed to all liabilities of the market and has limited ability to control the investment performance of their portfolio. Universal owners are uniquely positioned to support systematic market changes including support for disclosure on ESG issues and action to address liabilities and exposures that are identified through such disclosure.

Published February 28, 2020 NA2101 ISESGJE(02/20)