TrinityBridge

Responsible Investment Glossary

Active ownership is the use of the rights and position of ownership to influence the activity or behaviour of investees. This can be applied differently in each asset class. For listed equities it includes both engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes (eg, fixed income), engagement is still relevant while (proxy) voting may not be. *(Source: UNPRI)*

Additionality is often associated as a feature of impact investing. It can be defined in terms of whether a proposed activity will produce some 'extra good' in the future relative to a specified baseline, typically the counter-factual in which the investment has not taken place. *(Source: FCA Discussion paper 21/4: SDR)*

Best in class/positive screening is the investment in sectors, companies or projects selected for positive ESG performance relative to industry peers, or that achieve a rating above a defined threshold. *(Source: GSI, Global Sustainable Investment Review 2020)*

Carbon footprint is a measure of the amount of carbon dioxide released into the atmosphere as a result of particular actions. This is expressed as carbon dioxide equivalents (CO2e). *(Source: TrinityBridge)*

Carbon intensity represents a company's reported or estimated greenhouse gas emissions (tCO2e) normalized by sales (usually in million USD), which allows for comparison between companies of different sizes. *(Source: MSCI)*

Carbon neutral is the condition in which the release of carbon emissions are equally balanced against an emissions offset or removal from the atmosphere, to the extent that during a specified period there has been no net increase in the emission of carbon dioxide to the atmosphere. (Note, this differs from net-zero in that a carbon neutral approach does not require an effort to reduce carbon emissions and it specifically relates to carbon emissions rather than all greenhouse gas emissions.) *(Source: TrinityBridge)*

Centralised research TrinityBridge's investment research conducted by analysts within our Research and Funds teams. *(Source: TrinityBridge)*

Corporate net-zero target means a company must aim to eliminate sources of emissions within its value-chain at a pace and scale consistent with mitigation pathways that limit warming to 1.5°C with no or limited overshoot. During a company's transition to net zero, compensation and neutralization measures may supplement, but not substitute, reducing value chain emissions in line with science. At the time that net zero is reached, emissions that are not feasible for society to abate may be neutralized with equivalent measure of CO2 removals. *(Source: Sciencebasedtargets.org)*

Double materiality is defined from the perspective of both 'financial materiality' and 'impact materiality' where impact materiality involves (EFRAG, 2021, p8): "Identifying sustainability matters that are material in terms of the impacts of the reporting entity's own operations and its value chain (impact materiality). *(Source: The European Financial Reporting Advisory Group (EFRAG))*

Engagement is the intentional dialogue by investors, typically, with the management or board of a company, with the purpose of influencing the corporate's behaviour. *(Source: TrinityBridge)*

ESG factors Environmental, Social and Governance (ESG) factors are non-financial factors that affect or are effected by companies, and can present material risks and growth opportunities in investments. *(Source: TrinityBridge)*

Examples of factors in each category include, but are not limited to the following:

- Environmental factors: climate change, resource depletion, waste, pollution, deforestation.
- Social factors: human rights, modern slavery, child labour, working conditions, employee relations.
- Governance factors: bribery and corruption, executive pay, board diversity and structure, political lobbying and donations, tax strategy. *(Source: TrinityBridge)*

ESG integration is the systematic and explicit inclusion of material environmental, social and governance (ESG) factors in the investment process and decision making. It is one of the core requirements for a Responsible Investing approach. *(Source: TrinityBridge)*

Ethical screening is the application of filters to lists of potential investments to rule companies out of contention for investment, based on an investor's preferences, values or ethics, using negative screening. *(Source: TrinityBridge)*

EU taxonomy is a classification system that has defined a list of environmentally sustainable economic activities. The six suggested taxonomy objectives are: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and, protection and restoration of biodiversity and ecosystems. Note, a UK taxonomy is expected to be established but is still in consultation stage. *(Source: TrinityBridge)*

Externalities (positive and negative) are defined as an initially non-financial environmental or social cost or benefit incurred by a company via their operations, products or services. The externality tends to be unaccounted for in traditional company financial reporting. *(Source: TrinityBridge)*

Fundamental analysis refers to valuation methodologies used by analysts to measure a security's intrinsic value. It includes an assessment of the security together with its relevant business, economic, market, industry and sector prospects, and financial performance, to determine whether it is over or undervalued by the market. *(Source: TrinityBridge)*

Fundamentals are key metrics for an investment (eg, cash flow, return on invested capital, return on equity). *(Source: TrinityBridge)*

Greenhouse gases are both natural and human-made gases that absorb and emit radiation in the Earth's atmosphere, trapping heat in the atmosphere. The impact of these gases is called the greenhouse effect. Examples of greenhouse gases include carbon dioxide, methane and nitrous oxide. *(Source: TrinityBridge)*

Impact factors Social or environmental benefits or drawbacks that are caused by a company's activities. *(Source: TrinityBridge)*

Impact investing aims to achieve positive social and environmental impacts alongside a financial return. These impacts should be measurable, reported, intentional and additional. The intention should consider who/what experiences the outcome and how underserved they/it were/was before. Impact can be created through capital allocation and can be supported by active stewardship and engagement. *(Source: TrinityBridge)*

Just transition is the simultaneous protection of workers' rights, livelihoods and economic fairness together with shifting to an economy that is lower carbon, more sustainable and preserves, if not improves, biodiversity and our current climate. *(Source: TrinityBridge)*

Negative/exclusionary screening is the exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on certain criteria. Exclusion criteria (based on norms and values) can refer, for example, to product categories (eg, weapons, tobacco), company practices (eg, animal testing, violation of human rights, corruption) or controversies. *(Source: GSI, Global Sustainable Investment Review 2020)*

Norms-based screening is the screening of investments against minimum standards of business or issuer practice based on international norms such as those issued by the United Nations (UN), International Labour Organization (ILO), Organisation for Economic Co-operation and Development (OECD) and non-governmental organisations (NGOs). *(Source: GSI, Global Sustainable Investment Review 2020)*

Paris-aligned portfolio is an investment portfolio whose aggregated holding's net carbon emissions are on a trajectory aligned to the Paris Agreement and maintaining a below 2 degree Celsius global warming target. The trajectory is often calculated using implied sector carbon budgets (eg, those set by the Intergovernmental Panel on Climate Change, IPCC) and projected carbon emissions. *(Source: TrinityBridge)*

Responsible investing is an approach to managing assets where investors explicitly consider and integrate the impact of material environmental, social and governance (ESG) factors on the long term financial risk and return of their investments. Investors will also use these considerations to inform a diligent active ownership and stewardship approach. No specific sustainability goals are required for a responsible investing approach. *(Source: TrinityBridge)*

Scope 1 emissions relate to all direct emissions from an organisation's activities. Examples include fleet vehicles, air conditioning leaks and running boilers. *(Source: TrinityBridge)*

Scope 2 emissions relate to all indirect emissions associated with an organisation's energy use. Examples include the purchase of electricity, steam, heat or cooling. *(Source: TrinityBridge)*

Scope 3 emissions cover all other indirect emissions from the organisations activities up and down the value chain. Examples include lending, business travel, waste disposal, investments and leased assets. *(Source: TrinityBridge)*

Shareholder action is employing shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting. *(Source: GSI, Global Sustainable Investment Review 2020)*

Socially responsible investing (SRI) is a broad term for any investment discipline which seeks to consider both financial returns as well as social and environmental good, to bring about positive change to society. These strategies have often combined ethical, ESG, and/or impact criteria, and may employ screening. *(Source: TrinityBridge)*

Stakeholder value involves creating the optimum level of return for all stakeholders in an organization. The stakeholder value concept places some emphasis on net profits or cash flows, but it also incorporates the needs of other stakeholders, such as employees, the local community, governments, customers, and suppliers. *(Source: accountingtools.com)*

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. *(Source: FCA, 2020 Stewardship Code)*

Sustainability themed investing is an investment style that invests in assets specifically contributing to sustainable solutions, such as sustainable agriculture or green buildings, or investing in sustainable themes such as low carbon portfolios or portfolios promoting gender equality. *(Source: GSI, Global Sustainable Investment Review 2020)*

Sustainable investment involves actively targeting specific sustainability themes, characteristics or objectives (we define this as key to long term human and/or planetary prosperity) alongside financial returns. ESG integration can be a part of this discipline to better manage risk and enhance long-term financial returns, but does not determine a sustainable investment on its own. *(Source: TrinityBridge)*

UN Global Compact is a non-binding United Nations pact to get businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. It has 10 principles covering Human Rights, Labour, Environment and Anti-Corruption. *(Source: unglobalcompact.org)*

UN SDGs are the 17 Sustainable Development Goals that were set in 2015 by the United Nations General Assembly. The mission of the goals is to be a blueprint to achieve a better and more sustainable future for all people and the world by 2030. *(Source: sdgs.un.org)*

UN Universal Declaration of Human Rights was proclaimed by the United Nations in 1948 as a common standard of achievements for all peoples and all nations. It sets fundamental human rights to be universally protected. It is widely recognized as having inspired, and paved the way for, the adoption of more than seventy human rights treaties, applied today on a permanent basis at global and regional levels. *(Source: un.org)*

Weighted average carbon intensity measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' carbon intensity. *(Source: MSCI)*

Addendum
Below is the criteria for sustainable investment labels in the latest FCA Policy Statement. We have based our definitions for these terms on this criteria, ensuring we have the key points covered in addition to adding further clarity to the terms for internal and external use.

Sustainability Focus is an FCA defined label for investment products with a sustainability objective consistent with an aim to invest at least 70% in assets that are environmentally and/or socially sustainable, determined using the robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability. *(Source: FCA Policy Statement PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels)*

Sustainability Improvers is an FCA defined label for investment products with a sustainability objective consistent with an aim to invest at least 70% in assets that have the potential to improve environmental and/or social sustainability over time, and that are determined by their potential to meet the robust, evidence-based standard of sustainability. Firms must obtain robust evidence for selecting those assets. *(Source: FCA Policy Statement PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels)*

Sustainability Impact is an FCA defined label for investment products with a sustainability objective consistent with an aim to achieve a pre-defined positive, measurable, impact in relation to an environmental and/or social outcome (and invest at least 70% of their assets in accordance with that aim). *(Source: FCA Policy Statement PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels)*

Sustainability Mixed Goals is an FCA defined label for investment products with a sustainability objective to invest at least 70% in accordance with a combination of the sustainability objectives for the other labels. Firms must identify (and disclose) the proportion of assets invested in accordance with any combination of the other labels. However, requirements for each of the other labels must be met. *(Source: FCA Policy Statement PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels)*

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