Social

A-Z of

"Environmental, Social and Governance"

A-Z of ESG

Struggling to understand the terms and acronyms often used in **ESG** (environmental, social and governance)? This handy guide will explain and demystify some of the terms you might hear.

Active ownership – Engaging with a company on ESG issues and exercising ownership and voting rights to make sure the organisation is well-governed, promoting change and driving long-term performance. This manages risk and protects the interests of investors. It is considered to be a key principle of responsible investing and one of the most effective ways to balance risk and return while having a positive impact.

Biodiversity – The variety of plant and animal life on Earth or in a particular habitat. In the ESG conversation, investors might consider the impact an organisations actions might have on biodiversity and the destruction of natural ecosystems.

Carbon footprint – Carbon footprint refers to the total amount of greenhouse gas emissions (primarily carbon dioxide) caused by an individual, organisation, product, or event, often expressed in tons of CO2 equivalent per year or per unit of output.

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Circular economy – A circular economy revolves around a model of production and consumption in tandem, placing greater emphasis on sharing, leasing, re-using and repairing existing materials for as long as possible, while using waste materials and energy as part of the input for other processes e.g. composting. It reflects the "make do and mend" ethos prevalent in the war generation. This directly contrasts a linear economy that follows a "take, make, waste" model, in which raw materials are used to create finished goods and distributed until they end up as waste.

Carbon offset – The act of compensating for your own carbon footprint by reducing or removing CO2 and other greenhouse gas emissions elsewhere (e.g through land restoration or the planting of trees). Carbon offsetting could include investment into renewable energy schemes or funding insulation improvements in properties to reduce heat loss.

Climate finance – Climate finance refers to the financial resources, instruments, and mechanisms that support climate change mitigation and adaptation activities, such as investing in renewable energy, protecting forests, and building climate-resilient infrastructure, often provided by governments, international organisations, and private sector entities.

Corporate Social Responsibility (CSR) – Many believe that CSR focuses on the corporate response to social and environmental impacts but only in a qualitative way. It has commonly been seen as a way through which a company attains a balance of environmental and social imperatives, while at the same time addressing shareholder and stakeholder expectations. CSR has been superseded by ESG which seeks to deliver both a quantitative and qualitative assessment of sustainability.

Divestment – Selling or removing associations with particular subsidiary assets, investments, or divisions of a company as their actions or values are not being aligned with ESG expectations.

Environmental, Social and Governance (ESG) integration – Environmental, Social and Governance (ESG) integration is the practice of incorporating ESG factors into investment decision-making processes, such as risk assessment, valuation, and portfolio management, to identify and mitigate environmental and social risks, and promote sustainable and responsible investments.

Environmental, Social and Governance investment (ESG) – ESG is the consideration of environmental, social and governance factors when assessing the performance, behaviours and values of an organisation. It seeks to assess the way an organisation manages risks associated with environmental, social and governance issues, and the impact a business has on the environment and society.

Greenwashing – This is where an organisation conveys a false impression or provides misleading information to create an environmentally responsible image to the public. This could be done using green PR and marketing techniques to convince their stakeholders that their products, aims and policies are environmentally friendly.

Greenhushing – The practice of downplaying or concealing the environmental impact of a product, service, or activity.

Greenrinsing – The practice of promoting a product or service as environmentally friendly, without taking significant actions to reduce its environmental impact. It also refers to an organisation regularly changing its ESG targets before they are achieved.

Greenlabelling – Green labelling is a practise where organisations called something green or sustainable, but in closer examination these claims are misleading.

Greenshifiting –
Greenshifting is when companies imply that consumers are at fault and shift the blame onto them.

Greencrowding –
Greencrowding involves hiding in a group and moving at the speed of the slowest adopter of the sustainability policies.

International Sustainability Standards Board –
The International Sustainability Standards Board (ISSB) is a proposed global standard-setting body that would develop and promote sustainability reporting standards for businesses and other organisations, to improve transparency, accountability, and comparability of sustainability performance, change and outcomes.

Greenlighting –
In a greenwashing context, greenlighting is when a company showcases a particular green feature of its operations or products. This tactic aims to draw attention away from environmentally damaging activities being conducted elsewhere within the organisation.

Impact investing –
Investing with the intention of delivering measurable social and/or societal impacts and benefits as well as financial returns.

Net Zero by 2050 – Net zero means achieving a balance between carbon emissions produced and their removal from the atmosphere. In 2019 the UK became the first major economy in the world to make a legally binding commitment to net zero emissions by 2050.

Responsible investment – In terms of ESG, a responsible business is a business that exceeds legislation and cares about its staff, the environment and benefits society as part of its core values and focus.

Retrofitting – Retrofitting refers to the process of upgrading or modifying existing buildings, infrastructure, or systems to improve their energy efficiency, reduce their environmental impact, and enhance their functionality, comfort, and safety.

Social bonds – Social bonds are debt securities issued by public and private organisations to finance projects that have positive social outcomes, such as affordable housing, healthcare, education, or community development.

Socially Responsible Investing (SRI) – An investment strategy focused on sustainable, socially conscious, green or ethical performance and outcomes alongside financial return.

Sustainability reporting – Sustainability reporting refers to the practice of publicly disclosing an organisation's environmental, social, and governance (ESG) performance and impact, typically in the form of an annual report.

Sustainability-linked bonds – Sustainability-linked bonds are debt securities where the financial and/or structural characteristics are tied to predefined Sustainability/ESG objectives, which are evaluated through predefined sustainability/ESG performance targets or KPIs.

Sustainable Development Goals (SDGs) – The Sustainable Development Goals make up the United Nation's blueprint to achieve a better and more sustainable future. Comprised of 17 interlinked global goals, they are often used within investment frameworks and provide a framework to link relevant targets to your business activities. The SDGs can be used by organisations from all countries. They are aimed at improving health and education, reduce inequality, and spur economic growth whilst tackling climate change and working to preserve our natural environments.

Sustainable Finance Disclosure Regulation (SFDR) – European regulation setting out the disclosure requirements primarily for asset managers, designed to improve transparency around products and investments described as sustainable.

Sustainable investing – Often referred to as socially responsible or ESG investing, aims to combine traditional investing with environmental, social and governance factors, in order to promote societal and environmental outcomes alongside long-term financial return.

Task Force on Climate-related Financial Disclosures (TCFD) – The Task Force on Climate-related Financial Disclosures (TCFD) is a global initiative to develop a framework for companies and financial institutions to disclose climate-related risks and opportunities in their financial reporting.

Triple Bottom Line (TBL) – TBL is a business framework that evaluates an organisation's social, environmental, and financial performance. It aims to create sustainable value by taking into account economic, social, and environmental factors in decision-making (either today or at some time in the future).

Have we missed anything?

If there are any other terms that you are confused about, or if you would like some support to communicate your organisation's **ESG** story, please don't hesitate to get in touch with us.

invest@social.co.uk
www.social-invest.co.uk

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